NEON ENERGY LIMITED

ANNUAL REPORT

For the year ended
31 December 2013

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CORPORATE DIRECTORY

DIRECTORS:	Dr Alan Stein	Non-Executive Chairman
	Mr Kenneth Charsinsky	Managing Director
	Mr John Lander	Non-Executive Director
SECRETARY:	Gabriel Chiappini	Company Secretary
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BANKERS:	Westpac Bank Limited	
AUDITORS:	EY	
STOCK EXCHANGE:	Australian Stock Exchange Limited Code: NEN – Fully paid ordinary shares	

DIRECTORS' REPORT

The Directors of Neon Energy Limited present the financial statements of Neon Energy Limited and its controlled entities ("the Group" or "the consolidated entity") for the financial year ended 31 December 2013 and in accordance with a resolution of the Directors report as follows:

DIRECTORS AND EXECUTIVES

The Directors and Executives of Neon Energy Limited during the reporting period and up to the date of this report were:

Directors

Dr Alan Stein	Non Executive Chairman	
Mr John Lander	Non-Executive Director	
Mr Kenneth Charsinsky	Managing Director	

Executives

Mr Ben Newton	Chief Financial Officer	
Mr Iain Smith	Commercial Manager	
Mr David Cliff	Exploration Manager	(Ceased employment 27 Feb 2014)
Mr Donald Nelson	Resident Manager (USA)	

All Directors and Executives held their position from 1 January 2013 to the date of this report, unless otherwise indicated.

Current Directors

Dr Alan Stein
Non-Executive Chairman

Dr Stein is a geologist with over 20 years experience in the international oil and gas industry. He was the CEO of AIM listed Fusion Oil & Gas Plc which made several discoveries offshore Mauritania and in 2004 he was one of the founders of Ophir Energy Plc where he was the CEO from inception until 2011. Ophir has made significant discoveries offshore Equatorial Guinea and Tanzania and is listed on the Main Market of the London Stock Exchange where it is a constituent of the FTSE 250 index. Dr Stein is non-executive director of ASX listed Buccaneer Energy Limited, director of private investment company Haroma Pty Ltd, and is the Non-Executive Chairman of Hanno Resources Limited which has mining interests in Africa.

Dr Stein was appointed as a Director of the Company on the 27 October 2009 and Chairman on the 29 November 2009.

Mr Kenneth Charsinsky
Managing Director

Mr Charsinsky has over 35 years of experience in the upstream oil and gas industry, most recently as Exploration Director of International New Ventures for Noble Energy Inc. He has also served as Managing Director of operating subsidiary companies for CMS Oil and Gas in Congo and Tunisia.

Mr Charsinsky was appointed as a Director of the Company on the 27 October 2009.

DIRECTORS' REPORT

John Lander
Non-Executive Director

Mr Lander has over 45 years of experience in the international and domestic oil industry and has held a number of directorships in successful oil and gas companies listed in the United Kingdom being Pict Petroleum, Premier Oil, Ophir Energy and Tullow Oil, the latter up to his retirement from full-time employment. Mr Lander currently holds an additional non-executive post in UK based company Trajan Resources Limited.

Mr Lander was appointed as a Director of the Company on 27 October 2009.

DIRECTORS' INTERESTS

Interests of Directors of Neon Energy Limited in the Company at the date of this report are:

	Ordinary Shares	Performance Rights
Ken Charsinsky	2,488,005	2,262,885
John Lander	4,735,913	-
Alan Stein	9,041,321	-

DIRECTORS' MEETINGS

During the financial year the Company held three formal Directors' meetings. Due to the current extensive work related travel commitments of the Executive Directors, there has been limited opportunity for formal board meetings where all the Directors can be present in person and accordingly, the majority of business is addressed by circular resolutions. The number of circular resolutions attended to by the Directors and the attendance of Directors at meetings of the Board during the reporting period was as follows:

Current Directors	Circular Resolutions	Meetings Held	Number Attended	Maximum Possible
Ken Charsinsky	2	3	3	3
John Lander	2	3	3	3
Alan Stein	2	3	3	3

COMPANY SECRETARY
Mr Gabriel Chiappini

Mr Chiappini is a Chartered Accountant and member of the Australian Institute of Company Directors. He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance and Accounting and has worked predominantly in London and Perth with experience across many industry types. He is currently the Company Secretary for several ASX listed companies.

DIVIDENDS

Since the end of the previous financial year, no amounts have been paid or declared by Neon by way of a dividend.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were oil and gas exploration and oil production. There were no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

Operations

This report is presented for the twelve months to December 31st 2013.

During 2013 Neon has undergone significant change. Disappointingly, the Vietnam opportunity has not materialised into the "Company-Maker" that we had all hoped for. We are obviously disappointed with the end result and flow on effect onto our share price.

Following the farmout of offshore Vietnam Block 120 and Block 105-110/04 ("Block 105") to Eni S.p.A., and completion of the 3D seismic program of mid 2012 (fully funded by Eni) the Ca Ngu-1 and Cua Lo-1 exploration wells were drilled during the period from August to December 2013. Both wells achieved technical success by discovering hydrocarbons within all the pre-drill objectives; however they have been plugged and abandoned as sub-commercial discoveries.

The Cua Lo-1 well targeted a large gas prospect and encountered gas-bearing sandstone reservoirs at five levels, confirming a working petroleum system within Block 105. Production testing of the largest reservoir, the 4.5 Ma unit, achieved a maximum flow rate of 400,000 scf/d of gas, with high CO2 content. The poor reservoir deliverability is considered to be a function of relatively low reservoir porosity combined with low permeability, and post-well studies are currently in progress to determine the remaining prospectivity of Block 105. A key component of the studies will be a seismic inversion calibrated to the newly acquired well data, in order to assess the potential for improved reservoir development elsewhere within the block.

The Ca Ngu-1 well was designed as a "play-finder" well, targeting two separate hydrocarbon plays - Pliocene clastic and Miocene carbonate reservoirs. Wireline data confirmed the presence of gas within a number of Pliocene sandstone reservoirs, and the discovery of gas and oil within the Miocene carbonate objective. Based on interpretation of the wireline data the Miocene hydrocarbon column appears to consist of a 10 metre gas column overlying a 5 metre oil column. The intersected hydrocarbon columns do not offer commercial potential at the Ca Ngu-1 location, and, as with Block 105, post-well studies are currently in progress to assess the remaining prospectivity within Block 120.

Both exploration wells experienced significant operational challenges due to weather, equipment failure and other operational delays, resulting in the drilling taking much longer than originally forecast. As a consequence the cost of the drilling program is significantly higher than budgeted, and the Company is presently working with Operator Eni to determine the final cost and Neon Energy's associated remaining financial commitment. In addition, there is a pending insurance claim before assessors relating to an insurable event at Cua Lo-1.

Elsewhere in Southeast Asia, the Tanjung Aru joint operation has completed a tender for a 3D seismic vessel to acquire the 500km^2 survey as fulfilment of the Phase One work commitment. The survey is expected to commence in April 2014, subject to formal contract execution. The results from the 3D survey will help the joint venture decide whether to enter into the optional second term of the PSC, which commences in late 2014 and includes a single commitment well. The Tanjung Aru block covers 4,200 km^2 in water depths ranging from 20 metres to over 1,000 metres. The block is located in a relatively underexplored area of the Kutei Basin, one of Indonesia's most prolific hydrocarbon provinces with more than 12 billion barrels of oil equivalent discovered to date. Two gas discoveries are situated within the block, both drilled by Amerada Hess in 2002. These may have potential for development via

DIRECTORS' REPORT

tie-back to a new discovery, the economics of which are supported by strong domestic gas prices and proximity to the Ruby gas field pipeline.

In California, production at the Company's 100% owned North San Ardo oil field totalled 90,763 barrels of oil, with production levels having increased in the second half of the year as a result of the ongoing cyclic steam injection, and completion of the field-wide facilities upgrade. A 21 day moving average gross production rate of 333 bopd was achieved during January 2014; a record high for the period since cyclic steaming operations first commenced.

In the adjacent Glau exploration lease, Neon Energy completed a 2D seismic program, designed to delineate prospects for near-field exploration drilling. Acquisition of infill gravity and magnetic data is presently being completed, for integration into the subsurface interpretation. Well locations have already been permitted. Consequently, the contingent drilling program can commence once viable prospects are confirmed. The Glau lease is unexplored, with only one stratigraphic test well drilled to date, amid very sparse seismic coverage. That well confirmed the presence of moveable oil within the reservoir that produces at NSA and the available seismic data suggests that prospects that are geologically similar to NSA may extend into the Glau acreage.

At Neon's Paloma Deep appraisal/development project, the Company has been in discussions with a number of parties regarding a partnership in the project, in an effort to bring in an Operator with the necessary expertise and resources to progress commercialisation of higher potential yet more capital intensive unconventional zones. To date no formal offer has been accepted by the Company, and discussions continue while operations remain suspended.

At the Paris Valley oil field redevelopment project, Neon Energy has made progress with various regulatory and administrative hurdles, and is considering commencement of operations in due course. Central Paris Valley has proved plus probable (2P) resources estimated at 9.1 million barrels recoverable as defined by over 30 existing vertical wells. Neon believes that a combination of horizontal drilling and steam injection will be the key to unlocking the full commercial potential of the field, which was shut in during the 1970s at a time of low oil prices.

Financial Performance

Financial Highlights	Unit	12 months 31 Dec 2013	12 months 31 Dec 2012	Change	%
Production	bbls	90,763	111,399	(20,366)	(19%)
Average Daily Production	bopd	249	305	(56)	(18%)
Average Sale Price	$	101.50	97.34	4.16	4%
Revenue	$	9,706,546	10,618,460	(911,914)	(9%)
Field Operating Expenses	$	(7,064,384)	(5,613,597)	(1,450,737)	(26%)
Depreciation and Amortisation	$	(1,586,299)	(1,593,475)	7,176	0%
Gross Profit	$	1,055,863	3,411,388	(2,355,525)	(69%)
Corporate and Administration	$	(6,492,738)	(6,948,098)	455,360	7%

Production for the year from North San Ardo was 19% lower than for the previous year due to the natural decline at the field as well as extended periods of shutdown for facility upgrades and delayed maintenance. As a result, revenues for the year of $9.7m were down 9% compared to the previous year (31 December 2012: $10.6m).

The shutdown activity at North San Ardo has also contributed to the increase in field operating expenses as the company completed a number of maintenance activities during the now completed facility upgrade project. Additional expenditure at the field was also due to an increase in costs associated with the cyclic steam project, mainly supply gas required to power the steam generator.

DIRECTORS' REPORT

These costs were partially offset by corporate and administration expenses which were reduced by 7% to $6.5m for the year (31 December 2012: $6.9m).

Following a review of carrying value of all assets, the company has written down the value of a number of exploration assets as well as the carrying value of North San Ardo. The total of the impairment charge to the accounts is $86.6m (31 December 2012: $0.3m) with $47.1m being for Vietnam exploration costs and $39.5m being allocated across our US assets. Further details are provided in the notes to the accounts.

Kenneth Charsinsky
Managing Director

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity in the year ended 31 December 2013.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As announced by the Company on 10 January 2014, the Cua Lo-1 exploration well was plugged and abandoned following drill stem testing. The well encountered the presence of gas although poor reservoir deliverability combined with high carbon dioxide suggests commercial development of the reservoir at the Cua Lo-1 location is unlikely.

The Cua Lo-1 well experienced difficulties during drilling which have resulted in an insurance claim being lodged by the parties of the joint operation. The claim is currently being considered by underwriters.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Following the large and unexpected cost overruns on the Vietnam drilling campaign the Company is reviewing all options available to it in order to continue as an active exploration company with potential to add value for shareholders.

Neon will continue oil and gas production, development and exploration activities in the United States and South East Asia for the foreseeable future. However, the Company may seek to add shareholder value by altering the mix of assets in the portfolio and could, in the appropriate circumstances, monetise assets. The Company will continue to examine new opportunities in the oil and gas sector, which may at some point extend beyond the jurisdiction of the United States and South East Asia.

Oil and gas exploration and development is inherently risky and there can be no certainty that the Group will be able to successfully achieve the objective of becoming a mid-cap oil and gas explorer and producer. In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Group and the expected results of these operations in subsequent financial years may prejudice the interests of the Company and accordingly, has not been disclosed.

ENVIRONMENTAL REGULATION PERFORMANCE

The Group's operations are subject to significant environmental regulation under the laws of the jurisdictions in which the Group operates, including the State of California in the United States. The Company adheres to these laws and the Directors are not aware of any contraventions of these laws.

The Board believes that an efficient and productive oil and gas industry is important for the economy, globally and at a local level and that careful and respectful management of the environment is a key part of a healthy economy. The Directors and employees of Neon are cognisant of the impact of the operations of the Group on the environment and abide by standards set by both industry and internal policy and endeavour to meet these standards at all times.

SHARE OPTIONS AND ACHIEVEMENT RIGHTS

UNISSUED SHARES

DIRECTORS' REPORT

As at the date of this report there were 4,200,000 unissued ordinary shares under options following the expiration of 3,100,000 options since 31 December 2012, and the exercise of 3,100,000 options since 31 December 2012. As at 31 December 2013 there were 4,200,000 unissued ordinary shares under option. Refer to note 12(d) of the financial statements for further details on the options outstanding.

SHARES ISSUED AS A RESULT OF EXERCISE OF OPTIONS AND ACHIEVEMENT RIGHTS

There were 3,100,000 shares issued pursuant to the Neon Energy Share Option Plan during the financial year.

There were no shares issued to staff, upon vesting of Achievement Rights, pursuant to the Company's Share Incentive Plan.

MESSAGE FROM THE REMUNERATION COMMITTEE

Dear Shareholders

During 2013 Neon has undergone significant changes. As noted earlier in the Directors' Report, we were not able to convert the Vietnam opportunity into the "Company-Maker" that we had all hoped for. We are now faced with the challenge of re-building Neon and to do this, we need to ensure we manage our human capital appropriately and continue to retain key staff during this re-build phase.

At the same time, Neon is focussed on ensuring that our general and administrative costs are kept in check, and as a result during 2013 there were no increases in fixed remuneration, and no awards of short term incentives vested or long term incentives awarded for the 2013 performance year for any Neon personnel. For further information, the 2013 actual cash remuneration for executives, including the Managing Director, are disclosed below. The Board wishes to further advise that Non-Executive Director (NED) fees were frozen for FY13 and will remain frozen for the foreseeable future.

Neon is committed to ensuring its remuneration structure is appropriately aligned with shareholder interests and in that sense needs to ensure that key executive staff are motivated, rewarded and retained especially during this critical rebuilding period.

2014 The year ahead

As noted above, a main focus for the board is to quickly rebuild Neon value, and central to this is the retention and motivation of key staff who can implement the strategy in a timely and efficient manner. In light of the suspension of both the STIP and LTIP and the consideration of cost cutting measures for fixed remuneration for executives, the Board is considering an appropriate structure for a new Medium Term Incentive Plan (MTIP) and may present a plan to shareholders for consideration at the upcoming Annual General Meeting.

In light of the noted considerations, the board has taken the following steps:

Proposed changes for 2014	Rationale
Fixed remuneration reduced	In recognition of the changes to Neon's activities, the board and Key Management Personal are reviewing a reduction of fixed cash remuneration of 15% or more
Short term incentive plan "STIP"	Suspended until further notice
Long term Incentive plan "LTIP"	Suspended until further notice
Medium term incentive plan "MTIP"	May be presented to shareholders at AGM
NED fees to remain frozen	NED fees to remain frozen and in line with fees from 2013

DIRECTORS' REPORT

Executive Total Cash Earnings in 2013 (Non-IFRS basis)

The table below outlines the cash remuneration received by the Managing Director and by senior executives during the year ended 31 December 2013. This table is in addition to and different from the disclosures required by the Corporations Act and Accounting Standards as set out in the Remuneration Report. The table includes fixed remuneration, cash from the STI earned for FY13 performance and any equity granted as a result of LTI vesting or ESOP exercised during this period. The value attributed to the equity amounts (i.e., LTI and ESOP) is based on the number of shares that were issued multiplied by the closing share price at the date of issue less price paid to exercise the option. Note the value actually received by individuals differs from the values outlined in section 8 of the remuneration report which is based on accounting values.

	Fixed remuneration[1]	STI	LTIP	ESOP	Total remuneration earned in 2013
Ken Charsinsky Managing Director	$500,573	Nil	Nil	Nil	$500,573
Ben Newton Chief Financial Officer	$315,358	Nil	Nil	62,500	$377,858
Iain Smith Commercial Manager	$289,081	Nil	Nil	Nil	$289,081
Donald Nelson Resident Manager (USA)	$317,098	Nil	Nil	Nil	$317,098
David Cliff Exploration Manager (ceased employment 28 February 2014)	$315,360	Nil	Nil	62,500	$377,860

The cash earnings table above has been included separate to the disclosures at Section 8 of the Remuneration Report as it represents actual cash earnings and remuneration 'realised' by Key Management Personnel separate to earnings in accordance with Australian Accounting Standards. The Group believes that the additional information provided in this table is useful to investors. The Productivity Commission, in its Report on Executive Remuneration in Australia, noted that the usefulness of remuneration reports to investors was diminished by complexity and omissions, and in particular recommended that the report should include reporting of pay "actually realised" by the executives named in the report.

[1] Fixed remuneration includes cash salary, paid leave, superannuation, and non-monetary benefits

DIRECTORS' REPORT

We present to you Neon's 2013 Remuneration Report.

REMUNERATION REPORT (AUDITED)

Contents

1. Introduction

The Remuneration Report details the amount and nature of remuneration of each Key Management Personnel in accordance with the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act. Key Management Personnel are the directors plus the executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following were key management personnel of Neon at any time during the reporting period and unless otherwise indicated were Key Management Personnel for the entire period.

Non-Executive Directors	
Dr Alan Stein	Non-Executive Chairman
Mr John Lander	Non-Executive Director
Executive Director	
Mr Kenneth Charsinsky	Managing Director
Executives	
Mr Donald Nelson	Resident Manager (USA)
Mr Ben Newton	Chief Financial Officer
Mr Iain Smith	Commercial Manager
Mr David Cliff	Exploration Manager, *employment ceased on 28 February 2014*

For the purposes of this report, the term 'executive' encompasses the Managing Director and Executives of the Group.

There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue other than as disclosed in above table.

2. Remuneration Governance

For the period to which this report relates, there was a formally constituted Remuneration Committee and Remuneration Committee Charter.
The remuneration committee is comprised of Independent Non-Executive Directors Mr John Lander (Committee Chairman), Dr Alan Stein and Executive Director Mr Ken Charsinsky.

DIRECTORS' REPORT

The Remuneration Committee and its charter governs the Remuneration Structures of Neon and includes the remuneration levels of executives, design and structure of Employee incentive plans and general overall remuneration policy including recruitment, retention and succession planning.

The Remuneration Committee reviews remuneration matters on behalf of the Board and refers matters to the Board for decision, with a recommendation, or determine matters (where the committee acts with delegated authority), which it then reports to the Board.

The remuneration committee meets at least once through the year.

A copy of the Remuneration Charter is available on the website.

Use of Remuneration Consultants

To ensure the Board is fully informed when making remuneration decisions, the Board seeks external advice by way of the hiring of remuneration consultants, as required, on remuneration policies and practices. In the interests of independence and to avoid conflicts of interest, the remuneration consultant reports directly to the Remuneration Committee.

During the year the Board engaged consulting group Talent 2 to provide market data and insights regarding executive and employee fixed remuneration against a peer group of companies. No remuneration recommendations as defined by the Corporations Act were received on key management's remuneration.

Outcome from previous AGM

On 24 May 2013, Neon held its Annual General Meeting including tabling of the Remuneration Report for 2012 and sought shareholders' approval as a non-binding resolution that the remuneration as contained in the Company's 2012 Annual Financial Report for the financial year ended 31 December 2012 be accepted. The results of this non-binding resolution were as follows noting positive shareholder support with a vote of 91% in favour:

	For	Chair's Discretion	Against
Remuneration Report	55,996,083	325,775	5,430,497

3. Executive Remuneration Policy

The Board believes that Executives should be rewarded for performance and challenged to achieve the growth targets set by the Board which is now primarily focussed on rebuilding shareholder value.

The guiding principles in managing remuneration for Executives as adopted by the Board are that:

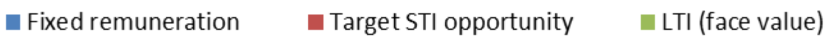
- Remuneration should be set at an appropriate level having regard to market practice for roles of similar scope and skill;
- Incentive schemes should be appropriate to retain Executives and to encourage continuously high levels of performance; and
- Incentive schemes should be clearly linked to the creation of shareholder wealth.

DIRECTORS' REPORT

Executive remuneration is compared to publicly listed Oil & Gas companies of similar size. Neon broadly seeks to position fixed remuneration at the 50th percentile against such companies with total remuneration positioned between the median and the 75th percentile. At the current date the milestones for achievement of 2011 Long term Incentive Rights which is due for assessment at 30 June 2014, indicates that none of the rights will vest into shares. Individual positioning of remuneration depends on this positioning aspiration plus consideration of experience, individual performance and the Company's circumstances.

Neon's executive remuneration is structured as a mix of fixed annual remuneration and variable remuneration, through "at risk" short term and long term incentive components. The mix of these components varies for different management levels. While fixed remuneration is designed to provide a predictable "base" level of remuneration, the short term and proposed long term incentive programs reward executives when performance conditions are met or exceeded.

For the Managing Director and senior executives the target remuneration mix is as follows:



Managing Director – Target remuneration mix

Senior Executives – Target remuneration mix

4. Components of Executive Remuneration

During 2013, the Company has a Remuneration scheme for Executives and employees that consists of the following components:

Fixed Remuneration ("FR"); and

Incentive Schemes, comprising:

- Short Term Incentive Plan[(i)] ("STIP") – an annual cash and / or equity based incentive, which may be offered at the discretion of the Board, linked to the Company and individual performance.
- Long Term Incentive Plan[(i)] ("LTIP") – achievement rights, which may be granted annually at the discretion of the Board, linked to performance conditions measured over a three-year period.
- Employee Share Option Scheme ("ESOP") – an allocation of share options granted at the discretion of the Board as a means to attract and retain employees where use of a leveraged option instrument may be consistent with Neon's understanding of market practice.

(i) As noted in the message from the Remuneration Committee, the STIP and LTIP have been suspended until further notice with no STIP awards vesting or LTIP awards awarded for the 2013 performance year.

DIRECTORS' REPORT

Fixed Remuneration

Fixed Remuneration ("FR") consists of base remuneration as well as employer contributions to superannuation funds. Overall remuneration levels are reviewed annually by the Board through a process that considers individual performances, market conditions and the overall performance of the Company.

As noted earlier in the Remuneration Report, the Board engaged consulting group Talent2 to provide market data and insights on fixed remuneration of industry peer companies and based on that review the Board made no adjustments to fixed remuneration to its Key Management Personnel.

Outcome for 2013: As part of the rebuild phase for 2014 we are reviewing the possibility for Key Management Personnel to have their fixed cash remuneration reduced by 15% or more.

Performance Linked Remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward Executives for meeting or exceeding their financial and personal objectives. Details of cash and / or equity short term incentives (STIP) paid by the Company during the year are provided in this report. The STIP is an "at risk" bonus provided in the form of cash and / or equity, while the long-term incentive is provided through the LTIP and ESOP. The LTIP and ESOP are linked to the Company's share price and are set out in more detail in this Remuneration Report.

Short Term Incentive Plan (STIP)

The STIP is "at risk" cash and / or equity based incentive measuring performance over a 12-month period coinciding with Neon's financial year. It is offered annually to Executives at the discretion of the Board when key performance measures are achieved within or over a financial year. The STIP is designed to put a proportion of executive remuneration at risk against meeting both financial and non-financial targets.

The performance conditions are set by the Board for each 12 month period and may vary from year to year and from participant to participant but reflect the financial and operational goals of Neon. Individual KPI's are given different weightings depending on their role or importance to Neon.

As noted earlier the board and management of Neon have agreed to suspend STIP for financial year 2014 and no STIP has vested since 2012. If and when the STIP is reintroduced the board will look to both financial and non-financial performance indicators in determining STIP awards. The STIP performance measures will be selected based on indicators that are directly linked to the creation of shareholder value and the strategic direction of the Group.

The amount of cash and / or equity available for the STIP will be determined annually by the Board and will be allocated at the Board's discretion.

DIRECTORS' REPORT

Long Term Incentive Plan (LTIP)

The aim of the LTIP component of Remuneration is to:

- Align the interests of Executives and shareholders;
- Provide targeted but competitive remuneration and a long-term incentive for the retention of key Executives; and
- Support a culture of Executive share ownership.

To achieve these aims, the LTIP will include relevant performance hurdles, agreed in advance, as a key element, with vesting of rights over a period that is consistent with the realisation of the medium and long-term strategic objectives of the Company as approved by the Board.

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as "Achievement Rights"). The offer of Achievement Rights under the LTIP takes the form of a conditional entitlement to be issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions. LTIP participants are not entitled to participate in any new issue of securities of the Company as a result of their holding Performance Rights. In addition, participants are not entitled to vote nor to receive dividends as a result of their holding Performance Rights.

The performance condition for the vesting of the rights relate to Total Shareholder Return (TSR). The basis of this measure is to align the interests of shareholder return with the reward to which an executive might become entitled.

Neon's TSR performance over the three-year performance period will be ranked against the TSR performance of a peer group of 21 companies being a mix of South East Asia and USA focused companies and other competing ASX listed companies.

The companies in the comparator group are listed below, with the following companies dropping out of the comparator group since FY12 Acer Energy Limited and Texon Petroleum Limited:

Antares Energy Limited	Otto Energy Limited
Buccaneer Energy Limited	Pancontinental Oil & Gas NL
Carnarvon Energy Limited	Pan Pacific Petroleum NL
Cooper Energy Limited	Petsec Energy Limited
Cue Energy Resources Limited	Senex Energy Limited
Lonestar Resources Limited (formerly Amadeus Energy Limited)	Azonto Petroleum Limited (formerly Rialto Energy Limited)
Entek Energy Limited	Strike Energy Limited
Horizon Oil Limited	Sundance Energy Australia Limited
Kairiki Energy Limited	Sun Resources NL
Nido Petroleum Limited	Tap Oil Limited
Oilex Limited	

DIRECTORS' REPORT

Where Neon's TSR performance relative to the comparator group (as reviewed by an external advisor to Neon) over the three year measurement period is ranked:

- Below the 50th percentile, 0% of the rights will vest
- Above the 50th percentile and below the 75th percentile, 75% vest
- At or above the 75th percentile, 100% vest

The number of companies in the peer group is reduced if and when any of the peer group companies are removed from being listed on the ASX.

The number of shares allocated is dependent on the total shareholder return (relative to the peer group companies) thresholds being met. 100% of the Achievement Rights are tested for vesting at the end of the three-year vesting period with the first three year testing period being 30 June 2014.
Generally, on cessation of employment, unvested rights will lapse, unless the Board in its sole discretion determines otherwise.

As noted earlier the board and management of Neon have agreed to suspend the LTIP for the 2014 financial year and no LTIP award was granted for the 2013 performance year.

In the event of a change of control of the Company, the Directors have the discretion to waive the vesting requirements.

ESOP

Neon shareholders approved the ESOP at a General Meeting held on the 20 April 2011, which allows the Board to issue options to Eligible Employees (being staff, directors and consultants) pursuant to ASX Listing Rules and the Corporations Act. The ESOP is not regarded as part of the on-going remuneration program, however may be used as a supplement to other forms of remuneration in one off situations that warrant a specific retention purpose such as a sign on incentive for new senior hires or for one-off awards where the STIP or LTIP programs may not be appropriate. The granting of options is not directly related to the Company's performance, however the change in share price is the key performance criteria for the ESOP as the realised value arising from options issued under the ESOP is dependent upon an increase in the share price to above the exercise price of the options.

The terms of the ESOP are at the discretion of the Board and generally provide that options issued pursuant to the plan will vest as follows:

1. As to 50% of any options issued, 12 months from the date the options are issued,
2. As to the total amount of options issued, any time after the expiration of 24 months from the date of issue.

The options have a life of 3 years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant vested options, failing which said options will be forfeited.

DIRECTORS' REPORT

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- Options shall be issued at an exercise price to be determined by the Directors and shall be no less than 110% of the weighted average market price (as quoted by ASX) of the Company's shares for the 28 trading days prior to the issue of the Options. The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Stock Exchange.
- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.
- The Board retains its discretion over ESOP terms and conditions.
- In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reconstructed (as appropriate) in accordance with the Listing Rules.

5. The Relationship between Performance and Remuneration

5 year performance snap-shot

In considering Neon's performance for shareholder wealth, the Board have regard to the following measures in respect of the current financial year and the previous four financial years.

	FY 2013	6 months to 31 Dec 2012	FY 2012	FY 2011	FY 2010
Net Profit/(loss) of the Group	($89.9m)	($2.8 m)	($2.0 m)	($0.8m)	($2.3m)
Dividends paid	None	None	None	None	None
Share price (year-end)	27.0 cents	25.5 cents	31.5 cents	39.5 cents	10.5 cents

DIRECTORS' REPORT

STIP outcomes for the year

During the year ended 31 December 2013, no STIP vested. This follows on from the company's decision to not award any STIP during the shortened 6 month financial period to 31 December 2012. There have been no awards of equity in the form of ordinary shares to Executives and participants in the STIP for the reporting period.

LTIP and ESOP outcomes for the year

At the current date the milestones for achievement of 2011 Long term Incentive Rights which ares due for assessment at 30 June 2014, indicate that none of the rights will vest into shares.

No LTIP grants were made during the period due to the company assessing its remuneration structure and mix.

No options have been issued to executives or other key management personnel under the terms of the ESOP during the reporting period. As disclosed in note 25 two million options were issued as a sign-on inducement to recruit high calibre staff that were not key management personnel. Prior issues that have vested in the current year are disclosed at notes 20 and 25 of the financial statements.

6. Non-Executive Director Remuneration

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually with reference to comparative companies. The comparator group is the same group used to measure TSR for the purposes of the LTIP. This detailed review was last completed in 2012 with no increases in NED remuneration for FY13.

The total annual remuneration for all Non-Executive Directors for the 12 months to 31 December 2013 was $115,475 (FY 2012 6 month period: $57,700) which includes fees for additional services requested by the Company and any superannuation where applicable.

A maximum aggregate fee pool of $350,000 for non-executive Directors' remuneration was agreed to at the 2011 Annual General Meeting.

POSITION	BASE FEE	COMMITTEE FEES	TOTAL FEES
Chairman	$60,000	$0	$60,000
Non-Executive Director	$50,000	$0	$50,000

Non-Executive Directors are entitled to participate in the ESOP and this may be used as a sign on incentive for new Board appointments, or in unique situations that require a specific purpose. During the reporting period there have been no awards of Options made to Non-Executive Directors under the ESOP.

Non-Executive Directors are not entitled to participate in the STIP or LTIP.

DIRECTORS' REPORT

7. Employment Contracts

It is Neon policy that employment contracts for Executives are unlimited in term but capable of termination by either party with due notice. All Executive contracts have a notice period of four months or less.

Treatment of termination provisions are as follows:

	Treatment of STIP on termination	Treatment of unvested LTIP on termination
Resignation	Unvested awards forfeited	Unvested awards forfeited
Termination for cause	Clawback of deferred STI payments at the boards' discretion.	Unvested awards forfeited
Termination in cases of death, disablement, redundancy or notice without cause	Pro-rated for time at boards' discretion	Pro-rated for time at boards' discretion

DIRECTORS' REPORT

8. Key Management Personnel Remuneration Details

Details of remuneration to Key Management Personnel of the Company and Group for the financial year 12 months to 31 December 2013 together with the 6 month comparative for the 6 months to 31 December 2012 are as follows:

		Short-Term			Post Employment	Share-Based Payments			Termination Benefit	Total		
	Year	Salary & Fees $	Bonus Cash $	Other $		Shares $	Rights $	Options $	$	$	% Performance Related	Value of options as proportion of remuneration
Non-Executive Directors												
Alan Stein	Dec 13	60,000	-	-	5,475	-	-	-	-	65,475	0%	0%
Chairman	Dec 12	30,000	-	-	2,700	-	-	-	-	32,700	0%	0%
John Lander	Dec 13	50,000	-	-	-	-	-	-	-	50,000	0%	0%
	Dec 12	25,000	-	-	-	-	-	-	-	25,000	0%	0%
Total	Dec 13	110,000	-	-	5,475	-	-	-	-	115,475		
Remuneration	Dec 12	55,000	-	-	2,700	-	-	-	-	57,700		
Executive Directors												
Ken Charsinsky	Dec 13	458,715	-	-	41,858	-	186,025	-	-	686,598	27.09%	0%
Managing Director	Dec 12	238,717	-	-	19,032	(20,410)	68,980	-	-	306,319	15.86%	0%
Total Remuneration	Dec 13	458,715	-	-	41,858	-	186,025	-	-	686,598		
	Dec 12	238,717	-	-	19,032	(20,410)	68,980	-	-	306,319		

Please note that the 2012 comparative represents a shortened 6 month comparative period compared to 12 months for 2013

DIRECTORS' REPORT

		Short-Term			Post Employment	Share-Based Payments			Termination Benefit	Total		
	Year	Salary & Fees $	Bonus Cash $	Other $		Shares $	Rights $	Options $	$	$	% Performance Related	Value of options as proportion of remuneration
Key Management Personnel												
Ben Newton	Dec 13	289,854	-	-	25,504	-	95,428	-	-	410,786	23.23%	0%
Chief Financial Officer	Dec 12	139,906	-	-	12,592	(11,108)	31,403	827	-	173,620	11.69%	0.48%
David Cliff Exploration Manager	Dec 13	288,990	-	-	26,370	-	93,593	-	-	408,953	22.89%	0%
(employment ceased 28 February 2014)	Dec 12	139,908	-	-	12,592	(13,682)	30,478	1,016	-	170,312	9.86%	0.60%
Iain Smith	Dec 13	264,908	-	-	24,173	-	89,463	-	-	378,544	23.63%	0%
Commercial Manager	Dec 12	128,249	-	-	11,542	(8,476)	29,788	-	-	161,103	13.23%	0%
Donald Nelson (i) Resident Manager	Dec 13	283,959	-	22,588	10,551	-	84,852	38,868	-	440,818	19.25%	8.82%
(USA) (Appointed 25 April 2012)	Dec 12	132,167	-	9,353	4,673	(8,254)	28,298	51,086	-	217,323	9.22%	23.51%
Total Remuneration of Key Management	Dec 13	1,696,426	-	22,588	133,931	-	549,361	38,868	-	2,441,174		
Personnel	Dec 12	833,947	-	9,353	63,131	(61,930)	188,947	52,929	-	1,086,377		

Please note that the 2012 comparative represents a shortened 6 month comparative period compared to 12 months for 2013

(i) In his role as Resident Manager of the USA office, Mr Nelson received other remuneration in the form of health insurance.

DIRECTORS' REPORT

9. Other Statutory Disclosures

For the purpose of determining the amount of remuneration required to be disclosed in each reporting period for each director or key management personnel, the Company uses the following methodologies to determine the remuneration values:

With respect to share options, the Company uses the Black-Scholes model to determine the fair value of the options as at the date of their issue. The fair value of the options granted is allocated over the vesting period for each of the directors and executives.

With respect to the Achievement Rights, the value that has been ascribed as remuneration has been determined by an independent valuation which determined the value of the Achievement Rights based on the probability of the Achievement Rights vesting on the date of issue.

Equity Instruments

All options refer to options over ordinary shares of the Company which are exercisable on a one-for-one basis. Achievement Rights are rights to a fully paid ordinary share in the Company subject to satisfaction of the vesting criteria as determined by the Board.

Options and rights over equity instruments granted as Remuneration

There were no options or rights over ordinary shares in the Company that were granted as Remuneration to key management personnel during the reporting period, except for 1,363,142 LTI Performance Rights that were granted to Mr Ken Charsinsky for the FY12 period but were not issued until April 2013 as they were subject to shareholder approval. Subsequent to the Annual General Meeting held on 12 April 2013, Neon allotted 1,363,142 LTI Performance Rights that were in relation to the FY12 period. During the reporting period 1,100,000 employee options vested to KMP Mr Donald Nelson, these options were originally allotted to Mr Nelson in 2011.

The details of the Performance Rights issues to Mr Ken Charsinsky are set out below:

2013	Held at 1 Jan 2013	Granted as Remuneration	Held at 31 December 2013	Vested and Exercisable at 31 Dec 2013
Directors				
Ken Charsinsky (i)	899,743	1,363,142	2,262,885	-

Grant Date	Expiry Date	Fair Value per option	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield	Life of Right
12/04/13	30/06/15	.111	.185	70%	2.78%	0.00%	2.2 yrs

List of options and rights held as at the date of this report are set out below:

Key Management Personal	Options	Long term incentive rights
Alan Stein	-	-
John Lander	-	-
Ken Charsinsky	-	2,262,885
Ben Newton	-	1,136,900
Iain Smith	-	1,061,319
Donald Nelson	2,200,000	1,006,020
David Cliff	-	-

DIRECTORS' REPORT

Modification of terms of equity settled share based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as Remuneration to Key Management Personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as remuneration

During the reporting period, shares were issued to Key Management Personnel on the exercise of options. Chief Financial Officer Ben Newton exercised 1,250,000 options at $0.20 that were previously issued to him under the ESOP. Former Exploration Manager David Cliff exercised 1,250,000 options at $0.20 options at $0.20 that were previously issued to him under the ESOP.

Achievement Rights

During the reporting period no shares were issued to Key Management Personnel under the Achievement Rights Scheme.

Analysis of Options granted as part of Remuneration

The table below shows the value of options granted to, exercised by and expired of each Director, and executive in the year and the total thereof.

	Granted in year (A) $	Value of Options Exercised in year (B) $	Lapsed in year (C) $
Directors			
Alan Stein	-	-	-
John Lander	-	-	-
Ken Charsinsky	-	-	-
Executives			
Ben Newton	-	62,500	-
David Cliff	-	62,500	-
Iain Smith	-	-	-
Donald Nelson	-	-	-

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of options lapsed during the year is calculated at the date of which the option lapsed using the intrinsic value of the option.

END OF REMUNERATION REPORT

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS

Under the Constitution the Company is obliged, to the extent permitted by law, to indemnify an officer (including Directors) of the Company against liabilities incurred by the officer in that capacity, against costs and expenses incurred by the officer in successfully defending civil or criminal proceedings, and against any liability which arises out of conduct not involving a lack of good faith.

During or since the end of the financial year, the Company has paid insurance premiums in respect of a contract insuring all of the Directors of the Company against legal costs incurred in defending proceedings for conduct involving:

i A wilful breach of duty; or

ii A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act.

The premiums paid or payable for the above policy are unable to be disclosed pursuant to a confidentiality clause within the contract of insurance.

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services during the financial year by the auditor (EY) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, as:

i The only non-audit services provided by EY were advice relating to tax and industry remuneration policy and practice;

ii The audit division (including partner and staff) involved with the audit of the Group were not involved with the provision of the non-audit services; and

iii Fees totalling $86,079 was paid to EY for non-audit services - details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 21 to the Financial Statements.

Based on the above, the Board is satisfied that the nature and scope of the non-audit service provided did not compromise the auditor's independence.

AUDITORS INDEPENDENT DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, EY, to provide the Directors of Neon Energy with an Independence Declaration in relation to the audit of the attached Financial Statements. This Independence Declaration is attached to this Directors' Report and forms part of this Directors' Report.

DIRECTORS' REPORT

This report has been made in accordance with a resolution of Directors.

KENNETH CHARSINSKY

Managing Director
Perth, 31 March 2014

Ernst & Young
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Auditor's Independence Declaration to the Directors of Neon Energy Limited

In relation to our audit of the financial report of Neon Energy Limited for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
31 March 2014

ANNUAL RESERVES STATEMENT

NORTH SAN ARDO

During the year, the Company engaged Petrotech Resources Company to undertake a year-end Independent Reserves assessment at the North San Ardo oil field located in Monterey Country, California. The reserves have been estimated using deterministic methods in accordance with standards promulgated by the Society of Petroleum Engineers (SPE) and the Society of Petroleum Evaluation Engineers (SPEE) and in accordance with the recently implemented ASX Listing Rules contained at Chapter 5 of the rules.

The table below provides a summary of the reserve estimate at North San Ardo as at 31 December 2013.

NORTH SAN ARDO	Neon Gross Reserves (before royalty interests)			Neon Net Reserves (after royalty interests)		
Reserves Classification	Oil (mmbbl)	Natural Gas (Bcf)	BOE (mmbbl)	Oil (mmbbl)	Natural Gas (Bcf)	BOE (mmbbl)
Proved Developed Producing	1.82	0.00	1.82	1.42	0.00	1.42
Proved Developed Non-Producing	0.00	0.00	0.00	0.00	0.00	0.00
Proved Undeveloped	0.70	0.00	0.70	0.55	0.00	0.55
Total Proved (1P)	2.52	0.00	2.52	1.97	0.00	1.97
Probable	0.68	0.00	0.68	0.53	0.00	0.53
Proved + Probable (2P)	3.20	0.00	3.20	2.50	0.00	2.50
Possible	0.74	0.00	0.74	0.58	0.00	0.58
Proved + Probable + Possible (3P)	3.94	0.00	3.94	3.08	0.00	3.08

The table below provides a reconciliation of the movement in gross reserves at North San Ardo for the year ended 31 December 2013.

NORTH SAN ARDO	Gross Oil Reserves at 31 December 2012 (mmbbl)	Oil Production (mmbbl)	Revisions / Additions / Reclassification (mmbbl)	Gross Oil Reserves at 31 December 2013 (mmbbl)
DEVELOPED RESERVES				
Proved (1P)	0.28	0.09	1.63	1.82
Proved + Probable (2P)	0.00	0.00	0.68	0.68
Proved + Probable + Possible (3P)	0.00	0.00	0.74	0.74
UNDEVELOPED RESERVES				
Proved (1P)	3.20	0.00	(2.50)	0.70
Proved + Probable (2P)	0.00	0.00	0.00	0.00
Proved + Probable + Possible (3P)	0.00	0.00	0.00	0.00
TOTAL	3.48	0.09	0.55	3.94

ANNUAL RESERVES STATEMENT

The table below provides a reconciliation of the movement in net reserves at North San Ardo for the year ended 31 December 2013.

NORTH SAN ARDO	Net Oil Reserves at 31 December 2012 (mmbbl)	Oil Production (mmbbl)	Revisions / Additions / Reclassification (mmbbl)	Net Oil Reserves at 31 December 2013 (mmbbl)
DEVELOPED RESERVES				
Proved (1P)	0.22	0.07	1.27	1.42
Proved + Probable (2P)	0.00	0.00	0.53	0.53
Proved + Probable + Possible (3P)	0.00	0.00	0.58	0.58
UNDEVELOPED RESERVES				
Proved (1P)	2.49	0.00	(1.94)	0.55
Proved + Probable (2P)	0.00	0.00	0.00	0.00
Proved + Probable + Possible (3P)	0.00	0.00	0.00	0.00
TOTAL	2.71	0.07	0.44	3.08

PARIS VALLEY

Paris Valley Field reserves have been calculated independently for Neon Energy by MHA Petroleum Consultants. The report dated 27 October 2008 states the reserves as of 1 January 2009. There have been no revisions or updates to this reserve assessment.

PARIS VALLEY	Neon Gross Reserves (before royalty interests)			Neon Net Reserves (after royalty interests)		
Reserves Classification	Oil (mmbbl)	Natural Gas (Bcf)	BOE (mmbbl)	Oil (mmbbl)	Natural Gas (Bcf)	BOE (mmbbl)
Proved Developed Producing	0.00	0.00	0.00	0.00	0.00	0.00
Proved Developed Non-Producing	0.90	0.00	0.90	0.75	0.00	0.75
Proved Undeveloped	0.90	0.00	0.90	0.75	0.00	0.75
Total Proved (1P)	1.80	0.00	1.80	1.50	0.00	1.50
Probable	7.33	0.00	7.33	6.11	0.00	6.11
Proved + Probable (2P)	9.13	0.00	9.13	7.61	0.00	7.61
Possible	0.00	0.00	0.00	0.00	0.00	0.00
Proved + Probable + Possible (3P)	9.13	0.00	9.13	7.61	0.00	7.61

As per Listing Rule 5.39.4, the Company provides the following information;

- The reserves at Paris Valley have not yet been developed because environmental approvals required to reactivate this dormant field have not yet been provided by the local Monterey County authorities. The company continues in its endeavours to secure those approvals and has made progress in recent months.
- The Company intends to continue to pursue the required approvals and permits and, when granted, to develop the Paris Valley field.

ANNUAL RESERVES STATEMENT

Qualified petroleum reserves and resources evaluator

In accordance with ASX Listing Rule 5.44, the Company confirms that the hydrocarbon reserves information contained in this document in relation to the North San Ardo oil field is based on, and fairly represents, information and supporting documentation prepared by Petrotech Resources Company under the supervision of Mr Brad DeWitt. Mr DeWitt holds a Master of Science, Engineering, and a Bachelor of Arts and is the President of Petrotech Resources Company, is a member of the Society of Petroleum Engineers and member of Society of Petroleum Evaluation Engineers and has over twenty years' experience in the sector.

Mr DeWitt is not an employee of the Company and consented in writing to the inclusion of the hydrocarbon reserves information in the form and context in which it appears in this Annual Report.

PETROLUEM PERMIT INTEREST SCHEDULE

The following table summarises the Company's ownership interests in its permits as at 31 December 2013:

California

County	Permit	Basin	Neon Interest (%)
Monterey	North San Ardo	Salinas	100%
Monterey	Paris Valley	Salinas	100%
Monterey	Glau	Salinas	100%
Monterey	Trio AMI	Salinas	50%
Monterey	Various	Salinas	100%
Kern	Paloma	San Joaquin	100%
Kern	Edison	San Joaquin	100%
Kern	Mountain View	San Joaquin	100%
Kern	Taft	San Joaquin	100%

South East Asia

Country	Permit	Basin	Neon Interest (%)
Vietnam	Offshore Block 105-110/04	Song Hong	25%
Vietnam	Offshore Block 120	Song Hong	25%
Indonesia	Tanjung Aru	Kutei	42%

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
1	Lay solid foundations for management and oversight		
1.1	Establish and disclose the functions reserved to the Board and those delegated to senior executives	✓	The Board of Directors of Neon Energy Limited is responsible for the corporate governance framework of the Group having regard to the ASX Corporate Governance Council published guidelines, principles and recommendations. The Company has an established system of corporate governance, founded on frequent communications between Directors and management. The Board of Neon represents shareholders' interest in building a successful oil and gas business that seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes this will ultimately result in the interest of all stakeholders being appropriately addressed when making business decisions. The Board also recognises its responsibility towards a wider group of stakeholders, together with its social responsibilities including socio economic and environmental responsibilities. The health and safety of all its employees, contractors and other people involved in any of Neon's operations is also of paramount importance to both the Board and senior executives of the Company. The Board is responsible for ensuring that Neon is managed in such a way to best achieve this desired result. Given the current size and operation of the business, the Board currently undertakes an active, not passive role. The Board is responsible for evaluating and setting the strategic direction for Neon, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company. The Board has sole responsibility for the following: • Determining the strategic direction of the Group and measuring performance of management against approved strategies; • Review of the adequacy of resources for management to properly carry out approved strategies and business plans; • Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators; • Monitoring the Group's medium term capital and cash flow requirements; • Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			• Determining that satisfactory arrangements are in place for auditing the Group's financial affairs; • Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements in conjunction with management; and • Ensuring that policies and compliance systems consistent with generally accepted good practice and the Group's objectives are in place and that the Company and its officers act legally, ethically and responsibly on all matters in conjunction with management. • Appointing and removing Executive Directors and any other executives and approving their remunerations; • Appointing and removing the Company Secretary and Chief Financial Officer and approving their remunerations; • The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required
1.2	Disclose the process for evaluating the performance of senior executives	✓	It is the responsibility of the Remuneration Committee to review and evaluate the performance of the Company's senior executives, this process is delegated to the Managing Director. The Managing Director's performance is reviewed by the Remuneration Committee. The Managing Director through annual appraisals evaluates the performance of the Company's senior executives.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.		Evaluations of the performance of the Managing Director and Chief Financial Officer have occurred and were in accordance with the process disclosed at 1.2 above. Refer to remuneration report.
2	Structure of the Board to add value		
2.1	A majority of the Board should be independent directors	✓	The majority of the Board is independent. The Neon Board comprises three directors: two independent non-executive directors and one executive director. The Board is chaired by an independent director. Neon Board has a majority of independent directors. Neon believes that employing a materiality concept is essential in judging whether customer, supplier, consultant or professional adviser relationships affect the independence of Neon directors. The Board assesses the independence of its directors in accordance with ASX recommendations and has determined that Mr Stein and Mr Lander satisfy the conditions to be considered independent directors.
2.2	The chairperson should be an independent director	✓	The Chairman, Mr Alan Stein is considered by the Board to be independent.

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
2.3	The roles of chairperson and Managing Director should not be exercised by the same individual	✓	The Chairman, Mr Alan Stein, facilitates the relationship between the Board and, Mr Ken Charsinsky the Managing Director.
2.4	The Board should establish a nomination committee	✗	The Company does not presently have a separate nomination committee as required by Best Practice Recommendations The size of the Company and Board does not warrant the establishment of a separate nomination committee. The duties of such committee have been considered and adopted by the Board. The Company does not have a documented procedure for the selection and appointment of directors. The Board informally reviews the skill set of and market expectations for its directors on a regular basis and considers these factors when appointing / re-electing directors. The Board invites persons with relevant industry experience and financial experience to assist it in its appointment of directors.
2.5	The process for evaluating the performance of the Board, its committees and individual directors should be disclosed.	✓	The Board has adopted a self-evaluation process to measure its own performance and the performance of any committees that may get formed during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the Directors of the Company. Arrangements put in place by the Board to monitor the performance of Neon executives and management include: • Annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company; and • Monitoring the performance of Neon with respect to the Company meeting the objectives, both financial and operational, set by the Board at the commencement of each financial year.
2.6	The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.		As at the date of this statement, the Company is of the view that it has complied with each of the recommendations under Principle 2, except for Recommendation 2.4. An explanation for the departures from Recommendation 2.4 is set out above.
3	Promote ethical and responsible decision making		
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:	✓	The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.
	(a) the practices necessary to maintain confidence in		

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
	the Company's integrity;		The principles of the code are: • A Director must act honestly, in good faith and in the best interests of Neon as a whole; • A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office. • A Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole. • A Director must recognise that the primary responsibility is to Neon's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Group. • A Director must not make improper use of information acquired as a Director. • A Director must not take improper advantage of the position of Director. • A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company. • A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board. • Confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law. • A Director should not engage in conduct likely to bring discredit upon the Company. • A Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code. The Board and employees of Neon will abide by all the laws of the jurisdictions the Company works within and seek mutually beneficial relationships in all our dealings with business partners, suppliers and other stakeholders. The Code of Ethics and Conduct provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company. The policy seeks also to help establish a Code of Ethics and Conduct that will attract directors and employees who have similar personal codes of ethics and conduct. Neon Directors and employees are expected to: • Respect the law and act in accordance with it; • Respect confidentiality and not misuse Company information, assets or facilities; • Value and maintain professionalism; • Avoid real or perceived conflicts of interest;
	(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;		
	(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;		

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			• Act in the best interests of shareholders; • By their actions contribute to Neon's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates; • Perform their duties in ways that minimise environmental impacts and maximise workplace safety; • Exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and • Act with honesty, integrity, decency and responsibility at all times. • An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify management of that breach. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All such reports will be acted upon and kept confidential.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓	The Board has adopted a policy concerning diversity and has disclosed the policy on its website.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✗	Neon encourages diversity in its workforces and to that end has adopted an equal opportunity and anti-discrimination policy which seeks to provide equal employment opportunities to all employee's regardless of race, gender, religion, age, nationality or any other grounds while providing a workplace where everyone is treated equally and fairly and where discrimination, harassment and inequality are not tolerated. Further the Group does not positively discriminate in favour of any group of people and positions of employment are based on technical ability, qualifications and experience. Therefore although the company supports the recommendations contained in the ASX *Corporate Governance Principles and Recommendation,* it does not follow the recommendations requiring the company to establish measurable objectives for achieving gender diversity as this contradicts our position of not discriminating in favour of any group of people. While not setting specific targets for achieving gender diversity, Neon does not discriminate in favour of or against the appointment of women at any level in the organisation, nor does it discriminate based on gender in setting salary levels, training and development or in other advancement opportunities. This will always be based on technical abilities and qualifications with no consideration to gender.

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women in the board	✘	Neon encourages diversity in its workforces and to that end has adopted an equal opportunity and anti-discrimination policy which seeks to provide equal employment opportunities to all employee's regardless of race, gender, religion, age, nationality or any other grounds while providing a workplace where everyone is treated equally and fairly and where discrimination, harassment and inequality are not tolerated. Further the Group does not positively discriminate in favour of any group of people and positions of employment are based on technical ability, qualifications and experience. Therefore although the company supports the recommendations contained in the ASX *Corporate Governance Principles and Recommendation,* it does not follow the recommendations requiring the company to establish measurable objectives for achieving gender diversity as this contradicts our position of not discriminating in favour of any group of people. While not setting specific targets for achieving gender diversity, Neon does not discriminate in favour of or against the appointment of women at any level in the organisation, nor does it discriminate based on gender in setting salary levels, training and development or in other advancement opportunities. This will always be based on technical abilities and qualifications with no consideration to gender. The table below provides actual data on gender diversity that currently exists within the group. Actual: Number / % Women employed whole organisation: 5 / 29.4% Women in senior executive roles: 0 / 0.0% Women in board positions: 0 / 0.0% Neon will review its position on disclosure of women in senior executive positions in future annual reports.
3.5	Provide related disclosures: - An explanation of any departure from Recommendation 3 - Posting to the company's web site any applicable code of conduct or a summary and the diversity policy or a summary of its main provisions	✘	Explanation of departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) in its future annual reports. The Corporate Governance Policies which includes the Diversity Policy and Corporate Code of Conduct is posted on the Company's website.
4	Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee	✓	The Company has established an Audit Committee, which will formally adopt Terms of Reference during the financial year. The purpose of the audit committee is to assist the Board to meet its responsibilities in relation to the Company's financial reporting, compliance with legal and regulatory requirements,

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			internal controls, risk management procedures and the internal and external audit functions. Key activities of the Audit Committee: • Approval of the scope, plan & fees for external audits • Review independence and performance of external auditor • Review significant accounting policies and procedures • Review key risks and the risk management framework • Review and recommendation to the Board for the adoption of the Company's half year and annual financial statements
4.2	Structure the audit committee so that it consists of:		The Audit Committee convenes at least twice a year and comprises of two Non-Executive Directors and the Managing Director. The external auditors, the Chief Financial Officer and Senior Corporate Accountant will attend Audit Committee meetings by invitation. The committee complies with the structure as required by the Best Practice Recommendation 4.2.
	a) only non-executive directors	✗	
	b) majority of independent directors	✓	
	c) independent chairperson, who is not the chairperson of the Board	✓	
	d) at least three members	✓	
4.3	The audit committee should have a formal charter	✓	The Audit Committee has a formal charter that can be made available on request.
4.4	The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.	✓	As at the date of this statement, the Company is of the view that it has complied with each of the recommendations under Principle 4, except as disclosed above 4.2 (a) and any future departure (if any) from Recommendation 4 above will be disclosed.
5	Make timely and balanced disclosure		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. These policies or a summary of the policies should be disclosed.	✓	Neon's Continuous Disclosure Policy details the process by which information is disclosed to the market. The Chair has ultimate authority and responsibility for market disclosure, which is delegated on a day to day basis to the Managing Director and Chief Financial Officer, who seek approval from the Chair on all significant matters. The Chair seeks the approval of the Board as required. Neon requires all employees and Directors to inform the Managing Director or in his absence, the Company Secretary, of any potentially price sensitive material or information as soon as practicable after they become aware of that information. The Company will promptly disclose such information to the

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			market, subject to the following procedures and guidelines. Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities. Neon complies in full with the requirements of ASX Listing Rule 3.1 in the implementation of this policy. The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX. Prior to any media or ASX release being made, two Directors, one of which must be the Managing Director, must first approve the release by email or telephone.
5.2	In accordance with the 'Guide to Reporting on Principle 5', the Company has made its Continuous Disclosure and Compliance Policy available on its website.	✓	The Company's Continuous Disclosure Policy is available on the Company's website.
6	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of Neon. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders. Mechanisms employed include: • Media and ASX announcements; • Maintenance of an informative website; • Regular presentations to shareholders and investors; • Directors answering queries from shareholders in a timely manner via email or telephone; • Regular statutory reporting, both to ASX and shareholders; and • Presentations by Managing Director at the Annual General Meeting and General Meeting's. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of Neon's strategy and goals.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.		The Continuous Disclosure Policy can be found on the company's website.

CORPORATE GOVERNANCE STATEMENT

7	Recognise and manage risk		
7.1	The Company should establish policies for risk oversight and management	✓	Neon is committed to risk management as part of good governance and business practice with a program of risk identification, assessment, management, monitoring, review and regular reporting.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✘	The identification and effective management of risk, including calculated risk taking, is viewed as an essential part of the Group's approach to creating long term shareholder value. Management is responsible for designing, implementing and reporting on the adequacy of the Group's risk management and internal control system. As part of the company's director meetings, management reports to the Board on the Group's key risks as they arise and the extent to which it believes these risks are being managed. The Board is responsible for reviewing and approving the Group's risk management and internal control system and satisfying itself at least on an annual basis that management has developed and implemented a sound system of risk management and internal control. The company does not have a formal Risk Management Committee and is in the process of adopting a more formal risk structure. The Group operates a standardised risk management process that provides a consistent framework for the identification, assessment, monitoring and management of material business risks. The Group has developed a series of operational risks which the Group believes to be inherent in the industry in which it operates. These include: • Fluctuations in commodity prices and exchange rates; • Accuracy of hydrocarbon reserve and resource estimates; • Reliance on licenses, permits and approval from regulatory authorities; • Ability to obtain additional financing; and • Changing operating, market and regulatory environments. The risks identified above are not exhaustive and are identified for the purposes of helping investors assess the risk profile of the Group operating within the oil and gas industry.
7.3	The Board should disclose whether it has received assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on	✓	The Board receives a written assurance from the Managing Director and the Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control

CORPORATE GOVERNANCE STATEMENT

	a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks		assurances from the Managing Director and the Chief Financial Officer can only be reasonable rather than absolute.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓	In accordance with the 'Guide to Reporting on Principle 7', the Company provides the following information: (a) The Company has not departed from Recommendations 7.1 to 7.4. (b) The Board has received the report from management under Recommendation 7.2. (c) The Board has received assurance from Mr Ken Charsinsky, as the Company's Managing Director and Mr Ben Newton as Chief Financial Officer, under Recommendation 7.3 The company's risk management policies are available on the company's website (within Audit Committee Charter).
8	Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee	✓	The Company has established a Remuneration Committee, which has a formal remuneration committee charter. The purpose of the Remuneration Committee is to assist the Board in establishing employment and compensation policies and practices, including recruitment, retention and remuneration of employees. Key activities of the Remuneration Committee: • Reward employees fairly and responsibly • Reviewal of the appointment and remuneration of new key staff, for recommendation to the board • Review of the annual remuneration report, for recommendation to the Board The Remuneration Committee convenes twice a year and consists of two independent non-executive directors and the Managing Director. The Chief Financial Officer will attend Remuneration Committee meetings by invitation.
8.2	The remuneration committee should be structured so that it: • Consists of a majority of independent directors	✓	The remuneration committee consists of a majority of Independent Directors.
	• Is chaired by the independent chair	✓	Mr John Lander chairs the Remuneration Committee and is considered to be Independent.
	• Has at least 3 members	✗	The Remuneration Committee consists of the 2 Non-Executive Directors (Mr Lander and Mr Stein) and Managing Director Mr Charsinsky.

CORPORATE GOVERNANCE STATEMENT

8.3	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives	✓	Refer Director's Report
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓	In accordance with the 'Guide to Reporting on Principle 8', the Company provides the following information: (a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors; (b) as at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 8.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated Year Ended 31 DEC 13 $	Consolidated 6 months Ended 31 DEC 12 $
Continuing operations			
Revenue	3(a)	9,706,546	4,087,588
Operating expenses		(5,063,848)	(1,573,446)
Royalty payments		(2,000,536)	(859,443)
Depreciation and amortisation expense	3(b)	(1,586,299)	(751,976)
Cost of sales		(8,650,683)	(3,184,865)
Gross profit		1,055,863	902,723
Other income	3(c)	897,773	-
Impairment of exploration and evaluation assets	3(e)	(79,911,886)	(324,615)
Impairment of oil and gas properties		(6,738,041)	-
Net loss on sale of assets		(3,556)	-
Plug and abandon costs		(3,116,697)	-
Corporate and administration expenses	3(d)	(6,492,738)	(3,454,894)
Finance costs		(58,930)	(75,280)
Loss before income tax		(94,368,212)	(2,952,066)
Income tax benefit	4	4,485,427	121,745
Loss after tax for the period	13	(89,882,785)	(2,830,321)
Other comprehensive income			
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods			
Foreign currency translation gain / (loss)		10,765,596	(824,881)
Other comprehensive gain / (loss) for the period		10,765,596	(824,881)
Total comprehensive loss for the period		(79,117,189)	(3,655,202)
		Cents	Cents
Basic loss per share	14	(16.30)	(0.58)
Diluted loss per share	14	(16.30)	(0.58)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		Consolidated	
	Note	DEC 13 $	DEC 12 $
CURRENT ASSETS			
Cash	17(a)	9,700,017	20,649,993
Other financial assets		1,147,875	-
Trade and other receivables	5	1,458,045	8,489,123
Inventories	6	118,086	85,322
TOTAL CURRENT ASSETS		12,424,023	29,224,438
NON-CURRENT ASSETS			
Property, plant and equipment	7	148,926	181,252
Oil and gas properties	8	27,358,498	29,718,057
Exploration and evaluation assets	9	4,765,243	41,734,784
TOTAL NON-CURRENT ASSETS		32,272,667	71,634,093
TOTAL ASSETS		44,696,690	100,858,531
CURRENT LIABILITIES			
Trade and other payables	10	26,936,621	2,603,376
Provisions	11	2,590,438	604,847
TOTAL CURRENT LIABILITIES		29,527,059	3,208,223
NON-CURRENT LIABILITIES			
Deferred Tax Liability	4	-	4,133,013
Provisions	11	2,529,458	3,066,321
TOTAL NON-CURRENT LIABILITIES		2,529,458	7,199,334
TOTAL LIABILITIES		32,056,517	10,407,557
NET ASSETS		12,640,173	90,450,974
EQUITY			
Contributed equity	12(a)	171,571,258	170,951,258
Reserves	12(b)	8,171,424	(3,280,560)
Accumulated losses	13	(167,102,509)	(77,219,724)
TOTAL EQUITY		12,640,173	90,450,974

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated Year Ended 31 DEC 13 $	6 months Ended 31 DEC 12 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,916,548	4,133,031
Payments to suppliers and employees		(12,201,390)	(6,023,798)
Interest received		472,499	147,216
Finance costs paid		(29,273)	(313)
Net cash flows used in operating activities	17(b)	(2,841,616)	(1,743,864)
CASH FLOWS FROM INVESTING ACTIVITIES			
Development expenditure		(2,689,682)	(895,187)
Exploration and evaluation expenditure		(12,209,920)	(20,024,581)
Proceeds from sale of interest in exploration and evaluation assets		6,556,804	57,781
Investments in short term deposits		(1,147,875)	-
Proceeds from the sale of property, plant and equipment		-	79,997
Purchase of property, plant and equipment		(43,994)	-
Net cash used in investing activities		(9,534,667)	(20,781,990)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		619,800	33,222,052
Transaction costs of issue of shares		-	(1,531,710)
Net cash flows from financing activities		619,800	31,690,342
Net increase/(decrease) in cash and cash equivalents		(11,756,483)	9,164,488
Net foreign exchange differences		806,507	(53,205)
Cash and cash equivalents at beginning of period		20,649,993	11,538,710
Cash and cash equivalents at end of period	17(a)	9,700,017	20,649,993

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued Capital $	Retained Earnings $	Option & Rights Premium Reserve $	Foreign Currency Translation Reserve $	Total Equity $
At 1 July 2012	139,260,816	(74,389,403)	3,782,399	(6,498,627)	62,155,185
Loss for the period	-	(2,830,321)	-	-	(2,830,321)
Other comprehensive income	-	-	-	(824,881)	(824,881)
Total comprehensive income for the period	-	(2,830,321)	-	(824,881)	(3,655,202)
Shares issued	33,417,031	-	-	-	33,417,031
Share issue expenses	(1,726,589)	-	-	-	(1,726,589)
Rights granted	-	-	207,839	-	207,839
Options granted	-	-	52,710	-	52,710
At 31 December 2012	170,951,258	(77,219,724)	4,042,948	(7,323,508)	90,450,974
At 1 January 2013	170,951,258	(77,219,724)	4,042,948	(7,323,508)	90,450,974
Loss for the year	-	(89,882,785)	-	-	(89,882,785)
Other Comprehensive Income	-	-	-	10,765,596	10,765,596
Total comprehensive income for the year	-	(89,882,785)	-	10,765,596	(79,117,189)
Shares issued	620,000				620,000
Rights granted	-	-	604,785	-	604,785
Options granted	-	-	81,603	-	81,603
At 31 December 2013	171,571,258	(167,102,509)	4,729,336	3,442,088	12,640,173

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Neon Energy Limited (the Company) for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 31 March 2014.

Neon Energy Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange and is domiciled in Australia.

The nature of the operations and principal activities of the Group are described in the directors' report.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has also been prepared on a historical cost basis.

Certain comparative information has been reclassified to be presented on a consistent basis with the current year's presentation, and where required under Australian Accounting Standards, comparative information is presented for the six months ending 31 December 2012 as a result of the change in the financial year end date.

The financial report is presented in Australian dollars unless otherwise stated.

(a) Going Concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the period ended 31 December 2013, the Group incurred a net loss after tax of $89.88 million and a cash outflow from operating activities of $2.84 million.

At 31 December 2013, the Group had cash and cash equivalents of $9.70 million (2012: $20.65 million), net assets of $12.64 million (2012: $90.45 million) and net working capital liabilities of $17.10 million (2012: net working capital assets $26.02 million).

The Group's financial obligations related to its offshore Vietnam interests are currently in dispute. The amounts claimed by the Operator for Blocks 105 and 120 offshore Vietnam are being vigorously defended by the Directors but at the date of this report, a negotiated settlement or other form of resolution has not yet been reached. The quantum of the claims by the Operator creates an uncertainty that could cast doubt as to whether the Group will continue as a going concern and, therefore, whether it will settle its liabilities and commitments in the normal course of business. Refer to notes 10 and 16 for further disclosure relating to this matter.

NOTES TO THE FINANCIAL STATEMENTS

The Directors have considered the funding and operational status of the business in arriving at their assessment of going concern and believe that the going concern basis of preparation is appropriate for a number of reasons, including:

- Negotiations continue with the partners in both Vietnam Blocks 105 and 120 with the aim of achieving a mutually acceptable arrangement that will allow Neon to limit payment obligations to cash already paid;
- Notwithstanding these ongoing negotiations, Neon is challenging the validity of drilling and other costs charged to the partners,
- Subsequent to balance date, the Directors are encouraged by discussions with a third party for a cash disposal of assets that the Directors believe has a high probability of closing within a short period of time. Those discussions, which remain incomplete and confidential as at the date of this report, will be disclosed if a binding agreement is executed.
- Finally, the Directors believe that the Group's ability to manage the timing of cash flows for discretionary exploration and development expenditure, coupled with significant reductions in corporate and administrative overheads, allows the Group to meet the obligations of the business as and when they fall due.

The ability of the Group to continue as a going concern is subject to:

1. The resolution of the Vietnam matter in a manner that does not threaten the ability of the Group to pay its debts as and when they fall due; and
2. The sale of assets as described above.

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Should the Group not achieve suitable outcomes from the matters identified above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Accordingly, these consolidated financial statements have been prepared on a going concern basis in the belief that the Consolidated Entity will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated, for a period not less than one year form the date of signing the financial report.

(b) New Accounting Standards and Interpretations

iv Changes in accounting policies and disclosures

Except as noted below, the accounting policies adopted are consistent with those of the previous years.

The Group has adopted all new and amended Australian Accounting Standards and AASB interpretations which were applicable as of 1 January 2013.

- AASB 10 Consolidated Financial Statements

  AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and Interpretation-112 Consolidation – Special Purpose Entities

  The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights when holding less than a majority voting rights may give control.

NOTES TO THE FINANCIAL STATEMENTS

Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10. The application of AASB 10 had no impact on the financial position and performance of the Group.

- AASB 11 Joint Arrangements
  AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists has changed. The Group is required to classify its interests in joint arrangements as either joint operations or joint ventures in accordance with the structure of the arrangement. Joint operations give the parties a right to the underlying assets and obligations of the arrangement and are accounted for by recognising the Group's share of those assets and obligations. Joint ventures give the parties a right to the net assets of the venture and are accounted for using the equity method.

  Previously, AASB 131 Interests in Joint Ventures contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under AASB 131 was primarily based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

  The application of AASB11 had no effect on the financial position or performance of the Group

- AASB 13 Fair Value Measurement
  AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

  AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

  The adoption of AASB 13 has no effect on the financial position or performance of the Group. The carrying amount of financial assets and liabilities are a reasonable approximation of fair value. Consequential amendments were also made to other statements via AASB 2011-8.

- AASB 119 Employee Benefits (Revised 2011)
  The revised standard changes the definition of short term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

  The adoption of AASB 119 has no effect on the financial position or performance of the Group.

  Consequential amendments were also made to other standards via AASB 2011-10

- AASB CF 2013-1 Amendments to the Australian Conceptual Framework
  AASB CF 2013-1 replaces the guidance in the Framework on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, as an integral part of the Framework and it also withdraws Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting
  The adoption of AASB CF 2013-1 has no effect on the financial position or performance of the Group.

v Accounting Standards and Interpretations issued but not yet effective

NOTES TO THE FINANCIAL STATEMENTS

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2013. Each new or amended Standard will be applicable for the Group from the first period beginning 1 January following the application date of the Standard. The expected impact of the new or amended Standards and Interpretations on the Group has not yet been determined. The applicable Standards and Interpretations are outlined in the table below.

Reference	Title	Summary	Application Date of Standard	Application Date for Group
AASB 2012-3	Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in	I January 2017	1 January 2017

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application Date of Standard	Application Date for Group
		fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2017.		
AASB 2013-3	*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 January 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	1 January 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it	1 January 2014	1 January 2014

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application Date of Standard	Application Date for Group
	[AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.		

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received

NOTES TO THE FINANCIAL STATEMENTS

- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(d) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of any acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(e) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision maker – being the executive management team.

(f) Foreign Currency Translation

Both the functional and presentation currency of Neon Energy Limited is Australian Dollars. The functional currency of all controlled entities other than those noted below is Australian Dollars.

Company Name	Functional Currency
Neon Energy Corporation	United States Dollar
Neon Energy (Paris Valley) LLC	United States Dollar
Neon Energy (Indonesia) Ltd	United States Dollar
Neon Energy (Song Hong) Pty Ltd	United States Dollar
Neon Energy (Nam Con Son)	United States Dollar
Neon Energy (India) Pty Ltd	United States Dollar

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items that are measured at fair

NOTES TO THE FINANCIAL STATEMENTS

value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Where the functional currency of a subsidiary of Neon is not Australian Dollars the assets and liabilities of the subsidiary at reporting date are translated into the presentation currency of Neon at the rate of exchange ruling at the statement of financial position date and the statements of comprehensive income are translated by applying the average exchange rate for the period.

Any exchange differences arising on this translation are taken to the foreign currency translation reserve.

(g) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of oil, gas and condensate is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Interest revenue is recognised as the interest accrues using the effective interest method.

(h) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future, nor if the deferred tax arises on the initial recognition of an asset or liability that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

Neon and its wholly owned Australian controlled entities have not implemented the tax consolidation legislation.

NOTES TO THE FINANCIAL STATEMENTS

(i) Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset. Where fair value less costs to dispose is an applicable valuation, best available information is used which includes similar market transaction data, valuations from external parties and negotiations with third parties in regards to asset sales.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash at bank and in hand, deposits held at call with financial institutions, with an original maturity of three months or less and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined.

(k) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

NOTES TO THE FINANCIAL STATEMENTS

(l) Investments and Other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loan and receivables, held-to-maturity investments, or available-for-sale investments. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial asset on initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

i Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(m) Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Plant and equipment are depreciated at rates based upon their expected useful lives with depreciation rates ranging between 7.5% and 50% dependent upon the specific type of asset subject to the depreciation charge.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the net disposal proceeds with carrying amount of the asset. These are included in the profit or loss in the period the asset is derecognised.

(n) Trade and Other Payables

Trade and other payables are carried at amortised cost and represent liabilities for the goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days.

NOTES TO THE FINANCIAL STATEMENTS

(o) Employee Leave Benefits

Liabilities for wages and salaries are recognised in accruals and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-monetary benefits and annual leave due to be settled within twelve months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(p) Contributed Equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

(r) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Exploration Expenditure

Exploration and evaluation costs, including the costs of acquiring leases, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

NOTES TO THE FINANCIAL STATEMENTS

i the expenditures are expected to be recouped through successful development and exploitation of the area of interest or its sale; or

ii Activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest. Where there is no cash generating unit, within an area of interest, and it is determined that the exploration and evaluation asset does not meet the impairment test, the capitalised expenditure is written off to the profit and loss account.

Once the technical feasibility and commercial viability of the extraction of oil or gas in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas properties.

(t) Oil and Gas Properties

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment, and any associated land and buildings.

When commercial operation commences the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

These costs are subject to depreciation and depletion.

Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated proved plus probable reserves, in a cash generating unit, together with the development expenditure necessary to develop the hydrocarbon reserves in the respective cash-generating units.

Oil & gas facilities, including storage facilities and pipelines, are depreciated over 15 years on a straight-line basis.

Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full in Note 2(y).

NOTES TO THE FINANCIAL STATEMENTS

(u) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Inventories

Inventories are valued at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Oil produced in storage which comprise of extracted crude oil stored in tanks and pipeline systems are valued at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs are assigned on the basis of weighted average costs.

(w) Share Based Payments

Equity settled transactions:
The Group provides benefits to Directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the Directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Neon Energy if applicable.

Equity-settled awards granted by Neon Energy Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Neon Energy Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with such awards.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number

NOTES TO THE FINANCIAL STATEMENTS

of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restoration Provisions
The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(y) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A finance lease is where substantially all the risks and benefits of the leased item are transferred to the lessee. All other leases are classified as operating leases and payments are recognised as an expense in the income statement. The Group currently does not have any finance leases.

(z) Joint Arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are

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classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Group recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method. Under the equity method, the cost of the investment is adjusted by the post acquisition changes in the Group's share of the net assets of the venture.

(aa) Significant accounting judgments, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on the estimates and assumptions of future events. In the process of applying Neon Energy's accounting policies, the Board has made the following judgments which have the most significant effect on amounts recognised in the financial statements.

I Exploration and Evaluation Assets

Neon's accounting policy for exploration and evaluation expenditure is set out in Note 1(t). The application of this policy necessarily requires the Board to make certain estimates and assumptions as to future events and circumstances, in particular the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Board concluded that the Company is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount is written off to the income statement. Changes in assumptions may result in a material adjustment to the carrying amount of exploration and evaluation assets.

II Reserve Estimates

Estimates of recoverable quantities of proven and probable reserves that Neon reports includes assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and anticipated recoveries of hydrocarbons from said reservoirs. The economic, geological and technical factors that Neon uses to estimate reserves may change from period to period. Changes in reported reserves can impact development and production asset carrying values and the recognition of deferred tax assets, due to changes in expected future cash flows.

III Share-Based Payment Transactions

Neon measures the costs of equity-settled transactions with employees by reference to the fair value of the equity investments at the date of which they are granted. The fair value is determined using the Black-Scholes model, using the assumptions detailed in Note 25.

IV Provision for Rehabilitation Costs

Rehabilitation and restoration costs are a normal consequence of oil extraction and the majority of this expenditure is incurred at the end of a well's life. In determining an appropriate level of provision

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consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the well), and estimated future level of inflation.

The ultimate cost of Rehabilitation and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other wells. The expected timing of expenditure can also change, for example in response to changes in oil reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

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3. REVENUES, OTHER INCOME AND EXPENSES

		Consolidated	
	Note	Year Ended 31 Dec 13 $	6 months Ended 31 Dec 12 $
(a) Revenue			
Oil sales		9,212,549	3,914,397
Finance revenue		484,971	173,191
Other revenue		9,026	-
		9,706,546	4,087,588
(b) Depreciation and amortisation included in the income statement			
Amortisation – oil and gas properties		1,022,705	477,778
Depreciation – oil and gas properties		563,594	274,198
		1,586,299	751,976
Depreciation – geoscience database		53,856	26,928
Depreciation – other plant and equipment		80,006	49,454
		1,720,161	828,358
(c) Other income			
Research and development tax rebate		335,563	-
Net gain on foreign exchange		562,210	-
		897,773	-
(d) Corporate and Administrative Expenses			
Depreciation – other plant and equipment		133,862	76,382
Employee Benefits (i)		3,954,164	1,982,637
Operating Leases (ii)		296,034	135,610
Travel Expenses		365,625	203,536
Consultants		827,364	297,871
Accounting and Legal		622,004	573,951
Net loss on foreign exchange		-	20,537
Other		293,685	164,370
		6,492,738	3,454,894
(i) Employee Benefits			
Wages and salaries		2,629,402	1,507,386
Medical insurance		107,657	43,025
Superannuation expenses		215,089	116,717
Other		203,639	149,576
Payroll taxes		111,988	65,866
Share based payments expense		686,389	100,067
		3,954,164	1,982,637

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUES, OTHER INCOME AND EXPENSES (continued)

	Note	Consolidated Year Ended 31 Dec 13 $	6 months Ended 31 Dec 12 $
(ii) Operating Leases			
Office equipment		13,146	1,502
Office premises		282,888	134,108
		296,034	135,610
(e) Impairment of exploration and evaluation assets			
Vietnam Block 105		25,457,973	-
Vietnam Block 120		21,653,063	-
Paloma		28,576,471	-
Tejon		-	280,452
San Ardo Exploration		726,989	-
San Joaquin Basin		1,587,561	-
Trio AMI		554,894	-
Others		1,354,935	44,163
		79,911,886	324,615

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest. The impairments were as a result of the Directors' ongoing analysis of the economic viability of appraisal projects and the Group's intention to progress commercial and technical feasibility. On this basis the recoverable amount for each area of interest is nil as a result of commercial feasibility not being established. Please refer to note 2(i) for further detail on the Group's impairment policy.

4. INCOME TAX

	Consolidated Year Ended 31 Dec 13	6 months Ended 31 Dec 12
(a) Recognised in the statement of comprehensive income		
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Origination and reversal of temporary differences	(4,485,427)	(121,745)
Deferred tax assets not brought to account	-	-
Income tax benefit reported in the statement of comprehensive income	(4,485,427)	(121,745)
(b) Reconciliation between tax expense and accounting profit before income tax		
Accounting loss before income tax	(94,368,212)	(2,952,066)
At the domestic income tax rate of 30% (2012: 30%)	(28,310,464)	(885,620)
Effect of tax rate in foreign jurisdictions	(5,119,857)	1,522
Expenditure not allowable for income tax purposes	385,049	335
Deferred tax assets not brought to account	28,559,845	762,018
Income tax benefit reported in the statement of comprehensive income	(4,485,427)	(121,745)

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	Year Ended 31 Dec 13	6 months Ended 31 Dec 12
(c) Deferred income tax		
Deferred income tax at 31 December 2013 relates to the following:		
Deferred tax liabilities		
Exploration and evaluation assets	1,151,380	15,581,163
Other	99,267	-
Deferred tax assets used to offset deferred tax liabilities	(1,250,647)	(11,448,150)
	-	4,133,013
Deferred tax assets		
Capital losses	1,809,486	1,684,175
Revenue tax losses	22,873,715	22,710,274
Exploration assets	20,385,860	-
Other	1,628,630	
Deferred tax assets used to offset deferred tax liabilities	(1,250,647)	(11,448,150)
Deferred tax assets not brought to account	(45,447,044)	(12,946,299)
	-	-

The benefit of deferred tax assets not brought to account will only be brought to account if:-

i future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
ii the conditions for deductibility imposed by tax legislation continue to be complied with; and
iii no changes in tax legislation adversely affect the Company in realising the benefit.

At 31 December 2013, there is no recognised or unrecognised deferred tax liability (Dec 2012: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability for additional taxation should such amounts be remitted.

(d) Tax consolidation

Neon Energy Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 28 October 2009. Neon Energy Ltd is the head entity of the tax consolidated group. Members of The Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

5. TRADE AND OTHER RECEIVABLES

	Consolidated	
	Dec 13 $	Dec 12 $
Trade debtors	905,124	1,680,060
Prepayments	105,880	114,406
Interest receivable	12,128	25,775
Receivable from joint operators	63,359	6,537,230
Research and development grant receivable	335,563	-
Other receivables	35,991	131,652
Total trade and other receivables	1,458,045	8,489,123

All trade debtors are current. No amounts are past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Dec 13 $	Consolidated Dec 12 $
6. INVENTORIES		
Oil produced in storage	118,086	85,322
Total inventories at lower of cost and net realisable value	118,086	85,322

7. PROPERTY, PLANT & EQUIPMENT

	Dec 13 $	Dec 12 $
(a) Office furniture and equipment:		
Cost	671,769	645,013
Accumulated depreciation	(522,843)	(463,761)
Net carrying amount	148,926	181,252
(b) Reconciliation		
Carrying amount at beginning of year	181,252	313,844
Foreign exchange effects	7,242	(4,271)
Additions	43,994	16,687
Disposals	(3,556)	(95,554)
Depreciation charge for the year	(80,006)	(49,454)
Carrying amount at end of year	148,926	181,252

8. OIL AND GAS PROPERTIES

December 2013	Plant and Equipment $	Development $	Total $
Opening Balance	6,219,472	23,498,585	29,718,057
Foreign exchange differences	909,538	3,955,587	4,865,125
Additions	594,512	1,476,891	2,071,403
Rehabilitation adjustment	-	(971,747)	(971,747)
Amortisation	-	(1,022,705)	(1,022,705)
Depreciation	(563,594)		(563,594)
Impairment of oil and gas properties (i)	-	(6,738,041)	(6,738,041)
Total oil and gas properties	7,159,928	20,198,570	27,358,498

December 2012	Plant and Equipment $	Development $	Total $
Opening Balance	6,622,090	22,891,749	29,513,839
Foreign exchange differences	(131,691)	(422,840)	(554,531)
Transfer	-	-	-
Additions	3,271	1,507,454	1,510,725
Amortisation	-	(477,778)	(477,778)
Depreciation	(274,198)	-	(274,198)
Total oil and gas properties	6,219,472	23,498,585	29,718,057

(i) The Company has for the past six months engaged external consultants to identify appropriate commercial transactions that will bring value for shareholders. That process is ongoing and has resulted in expressions of interest being received from third parties. Based on those expressions of interest the Company has reduced the carrying value of assets to their recoverable amounts determined on the basis of fair value less costs to dispose.

NOTES TO THE FINANCIAL STATEMENTS

9. EXPLORATION AND EVALUATION ASSETS

	Consolidated Dec 13 $	Consolidated Dec 12 $
Opening Balance	41,734,784	33,868,453
Foreign exchange differences	6,209,521	(439,902)
Sale of exploration and evaluation assets	-	(59,038)
Current period expenditure	37,043,559	8,716,814
Rehabilitation adjustment	(256,879)	-
Impairment of exploration and evaluation assets	(79,911,886)	(324,615)
Depreciation of geoscience database	(53,856)	(26,928)
Total Exploration and Evaluation assets	4,765,243	41,734,784

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest. The impairments were as a result of the Directors' ongoing analysis of the economic viability of appraisal projects and the intention of the business to progress commercial and technical feasibility.

10. TRADE AND OTHER PAYABLES

	Dec 13 $	Dec 12 $
Trade creditors – unsecured (i)	641,538	802,447
Accruals	196,333	429,138
Joint operations payable – Vietnam Block 105 and 120	26,098,263	1,284,213
Other expenses	487	87,578
Total Trade and Other Payables	26,936,621	2,603,376

(i) Trade creditors are non interest bearing and are normally settled on 30 day terms.

As at 31 December 2013, the Company has accounted for its best estimate of drilling costs incurred at Cua Lo #1 (Offshore Vietnam Block 105) and Ca Ngu #1 (Offshore Vietnam Block 120). This includes accruals based on joint venture expenditure statements provided by the operator, Eni. Significant uncertainty exists regarding the quantum of the drilling obligation and under certain circumstances the company would not have sufficient funds available to pay the balance of current outstanding payables and expected future cash calls within the existing primary exploration work programme. Refer to note 2(a) for further details.

NOTES TO THE FINANCIAL STATEMENTS

11. PROVISIONS

	Note	Consolidated Dec 13 $	Consolidated Dec 12 $
Current			
Employee benefits		243,746	234,456
Restoration and rehabilitation (i)		2,346,692	370,391
		2,590,438	604,847
Non-Current			
Restoration and rehabilitation (ii)		2,529,458	3,066,321
Movements in Restoration & Rehabilitation Provision			
Opening Balance		3,436,712	3,490,180
Liability incurred during period		3,116,697	5,778
Rehabilitation adjustment		(1,228,626)	(26,664)
Accretion		29,658	43,393
Liability fulfilled during the period		(997,072)	(11,106)
Foreign exchange difference		518,781	(64,869)
Closing Balance		4,876,150	3,436,712

(i) Whilst a definite time has not been agreed with the government authorities (State of California and Monterey County) at this point, the company believes that there are reasonable grounds to estimate that remediation activity may take place at Paris Valley during the next 12 months. In addition to this, plug and abandon operations in Vietnam took place in early 2014.

(ii) This restoration and rehabilitation provision represents the present value of rehabilitation costs relating to our oil and gas properties, being made up predominantly by North San Ardo. The timing of rehabilitation is likely to be at some point in the future when the production of oil and gas ceases to be economical. This in turn, will depend upon future oil and gas prices, which are inherently uncertain.

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES

(a) Contributed equity

	Note	Consolidated Dec 13 $	Consolidated Dec 12 $
Issued and fully paid capital			
- Ordinary shares	12(c)	171,571,258	170,951,258

Fully paid shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(b) Reserves

	Note	Dec 13 $	Dec 12 $
Option premium reserve			
- Expired options		3,003,687	3,003,687
- $0.40 Options (May 14)		219,450	197,646
- $0.60 Options (May 14)		168,300	151,236
- $0.60 Options (August 16)		27,586	-
- $1.00 Options (August 16)		15,149	-
	12(d)	3,434,172	3,352,569
Achievement Rights Premium Reserve	12(e)	1,295,164	690,379
		4,729,336	4,042,948
Foreign currency translation reserve		3,442,088	(7,323,508)
		8,171,424	(3,280,560)

Nature and Purpose of reserves

Option Premium Reserve
The option premium reserve is used to record the fair value of share based payments in the form of options issued by the Company.
Achievement Rights Premium Reserve
The achievement rights premium reserve is used to record the fair value of share based payments in the form of achievement rights made by the Company.

Foreign Currency Translation Reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

(c) Movements in ordinary shares on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of Ordinary Shares	$
30 June 2012	Opening balance	436,464,518	139,260,816
Jul 2012	Conversion of options	2,725,000	545,000
Aug 2012	Conversion of options	3,850,000	770,000
Sep 2012	Capital Raising	66,400,000	18,909,203
Oct 2012	Share Purchase Plan	5,043,418	1,503,776
Oct 2012	Capital Raising (Tranche 2)	33,600,000	9,568,411
Oct 2012	STIP Share Issue	261,155	94,052
Nov 2012	Conversion of options	1,500,000	300,000
31st Dec 2012	Closing Balance	549,844,091	170,951,258
Jul 2013	Conversion of options	2,700,000	540,000
Aug 2013	Conversion of options	400,000	80,000
31 Dec 2013	Closing Balance	552,944,091	171,571,258

(d) Movements in options on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of options	$
30 June 2012	Opening balance	19,750,000	3,299,859
Jul 2012	Exercise of options	(2,725,000)	-
Aug 2012	Exercise of options	(3,850,000)	-
Aug 2012	Expiration of options	(100,000)	(2,094)
Nov 2012	Exercise of options	(1,500,000)	-
Nov 2012	Exercise of options	(3,175,000)	-
Dec 2012	Vesting of options granted in previous years	-	54,804
31st Dec 2012	Closing balance	8,400,000	3,352,569
Jul 2013	Exercise of options	(2,700,000)	-
Jul 2013	Expiration of options	(2,700,000)	-
Aug 2013	Exercise of options	(400,000)	-
Aug 2013	Issue of options	2,000,000	42,735
Sep 2013	Expiration of options	(400,000)	-
Dec 2013	Vesting of options granted in previous years	-	38,868
31 Dec 2013	Closing Balance	4,200,000	3,434,172

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

Terms and conditions of unlisted Employee Share Options

The unlisted Employee Share Options listed below were issued after 20 April 2011 and therefore are based upon the terms and conditions of the Neon Energy Share Option Plan ("ESOP") as approved by Shareholders on 20 April 2011. Options issued under the approved ESOP have expiry dates and exercise prices as per the following table:

Number Outstanding	Expiry Date	Exercise Price $	Class
1,100,000	20/05/2014	0.40	ESOP
1,100,000	20/05/2014	0.60	ESOP
1,000,000	20/08/2016	0.60	ESOP
1,000,000	20/08/2016	1.00	ESOP

The terms of the ESOP are at the discretion of the board and generally provide that options issued pursuant to the plan will vest as follows:

1. As to 50% of any options issued, 12 months from the date the options are issued,
2. As the total amount of options issued, any time after the expiration of 24 months from the date of issue.

The options have a life of 3 years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant vested options, failing which said options will be forfeited.

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- Options shall be issued at an exercise price to be determined by the Directors and shall be no less than 110% of the weighted average market price (as quoted by ASX) of the Company's shares for the 28 trading days prior to the issue of the Options. The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Stock Exchange.
- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.
- The Board retains its discretion over ESOP terms and conditions.

In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reconstructed (as appropriate) in accordance with the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

(e) Movements in rights on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of Rights	$
30 June 2012	Opening balance	2,870,475	482,540
	Issue of achievement rights	3,004,548	35,825
	Vesting of rights issued in prior years	-	172,014
31 December 2012	Closing balance	5,875,023	690,379
	Issue of achievement rights	1,363,142	49,189
	Vesting of rights issued in prior years	-	555,596
31 December 2013	Closing balance	7,238,165	1,295,164

During the year, no rights were issued to management or senior employees.
The fair value of the achievement rights is estimated at the date of grant using a Monte Carlo simulation model.

Terms and conditions of Neon Energy Share Incentive Plan

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as "Achievement Rights"). The offer of Achievement Rights under the LTIP takes the form of a conditional entitlement to be issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions.

The current agreed performance conditions are two fold:

- A positive individual performance review of the eligible staff; and
- The Company's relative share price performance over a three-year period against a peer group of 21 companies being a mix of South East Asia and USA focused companies and other competing ASX listed companies.
  - Neon share price relativity <50%, 0% vest
  - Neon share price relativity >50% but less than 75%, 75% vest
  - Neon in top quartile of performers >75%, 100% vest

The 21 peer group companies, to which the relative share price of Neon is measured, are listed below:

Antares Energy Limited	Otto Energy Limited
Buccaneer Energy Limited	Pancontinental Oil & Gas NL
Carnarvon Energy Limited	Pan Pacific Petroleum NL
Cooper Energy Limited	Petsec Energy Limited
Cue Energy Resources Limited	Senex Energy Limited
Lonestar Resources Limited (formerly Amadeus Energy Ltd	Azonto Petroleum Limited (formerly Rialto Energy Limited)
Entek Energy Limited	Strike Energy Limited
Horizon Oil Limited	Sundance Energy Australia Limited
Kairiki Energy Limited	Sun Resources NL
Nido Petroleum Limited	Tap Oil Limited
Oilex Limited	

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

The number of companies in the peer group is reduced if and when any of the peer group companies are removed from being listed on the ASX.

The number of shares allocated is dependent on the total shareholder return (relative to the 21 peer group companies) thresholds being met. 100% of the Achievement Rights are tested for vesting at the end of the three-year vesting period. In the event of a change of control of the Company, the Directors have the discretion to waive the vesting requirements.

13. ACCUMULATED LOSSES

	Consolidated Dec 13 $	Consolidated Dec 12 $
Opening balance	(77,219,724)	(74,389,403)
Net loss for the year	(89,882,785)	(2,830,321)
Closing balance	(167,102,509)	(77,219,724)

(a) Dividends

No dividends were declared or paid during or since the end of the financial year.

(b) Franking Credits

In respect to the payment of dividends by Neon in subsequent reporting periods (if any), no franking credits are currently available, or are likely to become available in the next 12 months.

14. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted loss per share:

	Consolidated Dec 13 $	Consolidated Dec 12 $
Net loss	(89,882,785)	(2,830,321)
Adjustments	-	-
Earnings used in calculating basic and diluted loss per share	(89,882,785)	(2,830,321)

Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share are the same as basic earnings per share. The total number of contingently issuable shares and potential ordinary shares not considered dilutive were 11,438,165 (31 Dec 2012: 14,275,023)

NOTES TO THE FINANCIAL STATEMENTS

14. EARNINGS PER SHARE (Continued)

	Consolidated	
	Number of Shares Dec 13	Number of Shares Dec 12
Weighted average number of ordinary shares used in calculating basic earnings per share	551,339,319	489,746,125
Effect of dilutive securities:		
Share options	-	-
Performance rights	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	551,339,319	489,746,125

There have been no movements in shareholdings subsequent to the reporting period as at the date of this report.

15. JOINT ARRANGEMENTS

		Interest	
Name of Operation	Principal Activity	Dec 13	Dec 12
Block 105-110/04 Offshore Vietnam	Oil and gas exploration	25%	50%
Block 120 Offshore Vietnam	Oil and gas exploration	25%	50%
Tanjung Aru	Oil and gas exploration	42%	42%

Joint Operations Net Assets

The Consolidated Entity's share of assets and liabilities in jointly controlled operations is detailed below. The Group's share of joint operation's assets and liabilities recorded in the consolidated financial statements and are as follows:

	Consolidated	
	Dec 13 $	Dec 12 $
Share of the joint operation's statement of financial position		
Current Assets	4,123,058	596,498
Non-current Assets	1,280,131	31,615,258
Current Liabilities	(23,570,023)	(2,703,794)
Non-current Liabilities	-	-
Equity	(18,166,834)	29,507,962
Share of joint operation's share of revenue and profit		
Revenue	-	7,820
Administrative Expenses	-	(1,561)
Loss for the year from continuing operations	-	6,259

NOTES TO THE FINANCIAL STATEMENTS

15. JOINT ARRANGEMENTS (Continued)

	Consolidated Dec 13 $	Consolidated Dec 12 $
Commitments through Joint Operations		
Share of the joint operation's commitments		
Exploration Commitments	4,723,190	14,623,459

16. COMMITMENTS AND CONTINGENCIES

a) Operating lease expenditure contracted for is payable as follows:		
Not later than one year	268,696	280,977
Later than one year but not later than five years	21,489	283,092
	290,185	564,069

Operating leases are entered into for office premises and equipment. Rental payments are generally fixed, but with inflation escalation clauses applicable at periodic rental reviews. No operating leases contain restrictions on financing or other leasing activities.

b) Oil and gas and exploration lease expenditure contracted for is payable as follows:		
Not later than one year	62,677	216,267
Later than one year but not later than five years	212,568	461,973
	275,245	678,240
c) Exploration Commitments		
Not later than one year	4,723,190	14,623,459
Later than one year but not later than five years	-	-
	4,723,190	14,623,459

In order to maintain current rights of tenure to exploration permits, the consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations. The above exploration expenditure requirements have not been provided for in the Financial Report and are payable.

There is a contingent pending insurance claim that is currently before assessors relating to an insurable event encountered during the drilling of the Cua-Lo #1 well. There have been no contingencies made in the accounts for the contingent insurance claim.

NOTES TO THE FINANCIAL STATEMENTS

17. NOTES TO THE CASH FLOW STATEMENT

(a) Cash

For the purposes of the cash flow statement, cash includes cash at bank and on hand, bank bills, short term deposits at call and bank overdrafts. Cash as at the end of the financial year as shown in the cash flow statement is reconciled to cash at bank and on hand. Short term deposits that don't meet the definition of cash and cash equivalents are shown in the cash flow statement as an investing activity.

	Consolidated	
	Dec 13 $	Dec 12 $
Cash at bank and on hand	9,700,017	16,345,691
Other short term deposits	-	4,304,302
Closing balance	9,700,017	20,649,993

(b) Reconciliation of net loss before tax to net cash used in operating activities.

Net loss before tax	(94,368,212)	(2,952,066)
Adjustments for non-cash income and expense items		
Depreciation and amortisation	1,720,161	828,358
Impairment loss on exploration and evaluation assets	79,911,886	324,615
Impairment loss on oil and gas properties	6,738,041	-
Plug and abandon costs	3,116,697	-
Net loss on sale of investment	3,556	-
Share based payments expensed	686,389	260,549
Accretion	29,658	-
Net gain on foreign exchange	(562,210)	(53,205)
	(2,724,034)	(1,591,749)
Changes in assets and liabilities		
(Increase)/Decrease in Assets		
Trade and other receivables	(505,035)	718,111
Inventory	(32,764)	51,578
Increase/(Decrease) in liabilities		
Trade and other payables	410,927	(907,437)
Provisions	9,290	(14,367)
Net cash used in operating activities	(2,841,616)	(1,743,864)

NOTES TO THE FINANCIAL STATEMENTS

18. PARENT ENTITY INFORMATION

Information Relating to Neon Energy Ltd	Dec 13 $	Dec 12 $
Current assets	9,643,174	20,581,898
Total assets	37,709,741	82,149,194
Current liabilities	(450,434)	(350,568)
Total liabilities	(450,434)	(350,568)
Issued capital	171,571,258	170,951,058
Retained earnings	(139,041,087)	(93,195,380)
Achievement rights reserve	1,295,164	690,379
Option premium reserve	3,434,172	3,352,569
Total shareholders equity	37,259,307	81,798,626
Loss of Neon Energy Ltd	(45,845,707)	(3,176,567)
Total comprehensive loss of Neon Energy Ltd	(45,845,707)	(3,176,567)

Contingent Liabilities
There are no contingent liabilities of the parent entity as at 31 December 2013.

Contractual Commitments
The parent entity has commitments of $239,732 (Dec 2012: $460,970) which relate to the lease for the office and printer.

19. CONTROLLED ENTITIES

All controlled entities are included in the consolidated financial statements. The Parent Entity does not guarantee to pay the deficiency of its controlled entities in the event of a winding up of any controlled entity. The financial year end of the controlled entities is the same as that of the Parent Entity.

Name of Controlled Entity	Place of Incorporation	% of Shares held	
		Dec 13	Dec 12
Neon Energy Corporation	United States	100	100
Paris Valley LLC	United States	100	100
RECL Asia Sdn Bhd (Dormant)	Malaysia	100	100
Renewable Energy Corporation Pty Ltd (Formerly REL Operations Pty Ltd) (Dormant)	Australia	100	100
REL Australia Pty Ltd [1] (Dormant)	Australia	50	50
Neon Energy (Australia) Pty Ltd	Australia	100	100
Neon Exploration Pty Ltd	Australia	100	100
Neon Energy (Nam Con Son) Pty Ltd	Australia	100	100
Neon Energy (India) Pty Ltd	Australia	100	100
Neon Energy (Indonesia) Pty Ltd	Australia	100	100
Neon Energy (Song Hong) Pty Ltd	Australia	100	100

(1) This company is included in the Group as Neon has nominated all Directors (being two) of the company and therefore has the capacity to control the financial and operating policies of the company

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL

Transactions with Related Parties in the Consolidated Group

The consolidated group consists of Neon Energy Limited (the ultimate Parent Entity in the wholly owned group) and its controlled entities (see Note 19).

Neon entered into the following transactions during the year with related parties in the wholly owned group:

- Loans were advanced on long and short term inter-company accounts.

These transactions were undertaken on commercial terms and conditions, except that:

i There is no fixed repayment of loans between the related parties; and
ii No interest is payable on the loans.

Transactions with Related Parties of the Consolidated Group

The following were key management personnel of Neon at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Dr Alan Stein	Chairman (Non-Executive)
John Lander	Non Executive Director
Kenneth Charsinsky	Managing Director

Other Key Management Personnel

Donald Nelson	Resident Manager (USA)
Ben Newton	Chief Financial Officer
Iain Smith	Commercial Manager
David Cliff	Exploration Manager

The key management personnel compensation included in administration expenses are as follows:

	Consolidated	
	Dec 13	Dec 12
	$	$
Short-term	1,719,014	843,300
Termination benefit	-	-
Post employment	133,931	63,131
Share-based payments	588,229	179,946
	2,441,174	1,086,377

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Other Related Party or Key Management Personnel Transactions with the Company or its Controlled Entities

Options over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2013	Held at 1 Jan 2013	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 December 2013	Vested and Exercisable at 31 Dec 2013
Directors							
Alan Stein	-	-	-	-	-	-	-
John Lander	-	-	-	-	-	-	-
Ken Charsinsky	-	-	-	-	-	-	-
Other Key Management Personnel							
Ben Newton	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Dave Cliff	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Donald Nelson	2,200,000	-	-	-	-	2,200,000	2,200,000
Iain Smith	-	-	-	-	-	-	-

2012	Held at 1 July 2012	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 Dec 2012	Vested and Exercisable at 31 Dec 2012
Directors							
Alan Stein	3,300,000	-	(3,300,000)	-	-	-	-
John Lander	400,000	-	(200,000)	(200,000)	-	-	-
Ken Charsinsky	3,050,000	-	(1,750,000)	(1,300,000)	-	-	-
Other Key Management Personnel							
Ben Newton	2,500,000	-	-	-	-	2,500,000	2,500,000
Dave Cliff	2,500,000	-	-	-	-	2,500,000	2,500,000
Donald Nelson	2,200,000	-				2,200,000	1,100,000
Iain Smith	1,125,000	-	-	(1,125,000)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Movement in Achievement Rights

The movement during the reporting period in the number of achievement rights held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2013	Held at 1 Jan 2013	Granted as Remuneration	Held at 31 December 2013	Vested and Exercisable at 31 Dec 2013
Directors				
Ken Charsinsky (i)	899,743	1,363,142	2,262,885	-
Other Key Management Personnel				
Ben Newton	1,136,900	-	1,136,900	-
Dave Cliff	1,119,210	-	1,119,210	-
Donald Nelson	1,006,020	-	1,006,020	-
Iain Smith	1,061,319	-	1,061,319	-

2012	Held at 1 July 2012	Granted as Remuneration	Held at 31 Dec 2012	Vested and Exercisable at 31 Dec 2012
Directors				
Ken Charsinsky	899,743	-	899,743	-
Other Key Management Personnel				
Ben Newton	442,207	694,693	1,136,900	-
Dave Cliff	424,517	694,693	1,119,210	-
Donald Nelson	403,953	602,067	1,006,020	-
Iain Smith	424,517	636,802	1,061,319	-

(i) Ken Charsinsky was awarded 1,363,142 achievement rights for the period ended 31 December 2012 which were not granted as they remained subject to shareholder approval as at 31 December 2012. They were subsequently approved at a meeting of shareholders on 12th April 2013.

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Movements in shareholdings

The movements during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially by each key management personnel, including their related parties, is as follows:

2013	Held at 1 Jan 2013	Purchases	Received on exercise of options/rights	Granted as remuneration	Sold	Held at 31 Dec 2013
Directors						
Ken Charsinsky	2,394,248	-	-	93,757	-	2,488,005
Alan Stein	9,041,321	-	-	-	-	9,041,321
John Lander	4,735,913	-	-	-		4,735,913
Other Key Management Personnel						
Ben Newton	213,657	-	1,250,000	-	(1,157,500)	306,157
Iain Smith	1,364,498	-	-	-	(300,000)	1,064,498
David Cliff	33,217	-	1,250,000	-	(1,037,500)	245,717
Donald Nelson	70,192	-	-	-	-	70,192

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

2012	Held at 1 July 2012	Purchases	Received on exercise of options/rights	Granted as remuneration	Other	Held at 31 Dec 2012
Directors						
Ken Charsinsky	644,248	-	1,750,000	-	-	2,394,248
Alan Stein	5,741,321	-	3,300,000	-	-	9,041,321
John Lander	4,535,913	-	200,000	-	-	4,735,913
Other Key Management Personnel						
B Newton	171,642	-	-	42,015	-	213,657
Iain Smith	1,435,448	-	-	39,050	(110,000)	1,364,498
David Cliff	-	-	-	33,217	-	33,217
Donald Nelson	30,238	-	-	39,954	-	70,192

21. REMUNERATION OF AUDITORS

The following total remuneration was received, or is due and receivable, by the Groups' auditors Ernst & Young in respect of:

	Consolidated Year ended Dec 13 $	Consolidated 6 months ended Dec 12 $
Auditing the financial statements for the full year and review of half year	93,857	58,000
Tax and remuneration services	86,079	66,322
	179,936	124,322

NOTES TO THE FINANCIAL STATEMENTS

22. SEGMENT INFORMATION

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the country of origin, being the United States of America (USA) and South East Asia. Discrete financial information about each of these operating businesses is reported to the executive management team.

Accounting policies and inter-segment transactions

The accounting policies used by the group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

Major customers

The Group has one customer to which it provides almost all of the oil and gas produced being Conoco-Phillips. Sales to Conoco-Phillips of $9,212,549 (Dec 2012: $3,906,661) made up 100% (Dec 2012: 99.8%) of the Group's oil sales. Given the nature of the product sales, despite the sales being entirely to Conoco-Phillips, the Group does not have an economic dependency on the customer.

In the event that a segment has taxable income in the country of operation, a tax expense is charged to that segment. All other tax expenses (if any) are unallocated.
The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Net gains/losses on available for sale investments
- Foreign exchange gains/losses
- Finance income/costs
- Head office corporate, administration and business development cost

NOTES TO THE FINANCIAL STATEMENTS

22. SEGMENT INFORMATION (continued)

The following table presents revenue and profit information for reportable segments.

	USA	SEA	Corporate	Total
Oil Sales	9,212,549	-	-	9,212,549
Interest Revenue	-	-	484,971	484,971
Other Revenue	-	-	9,026	9,026
Segment Revenue	9,212,549	-	493,997	9,706,546
Impairment Expense	(38,929,164)	(47,720,763)	-	(86,649,927)
Depreciation and Amortisation	(1,622,146)	(53,856)	(44,159)	(1,720,161)
Other Income	-	-	897,773	897,773
Operating Expenses	(5,063,848)	-	-	(5,063,848)
Income Tax Benefit	-	-	4,485,427	4,485,427
Royalty Payments	(2,000,536)	-	-	(2,000,536)
Plug and Abandon Costs	-	(3,116,697)	-	(3,116,697)
Admin and Corporate	(2,128,513)	(75,674)	(4,217,175)	(6,421,362)
Segment Result	(40,531,658)	(50,966,990)	1,615,863	(89,882,785)

	USA	SEA	Corporate	Total
Cash	88,502	242,443	9,369,072	9,700,017
Other Financial Assets	111,757	828,118	208,000	1,147,875
Trade and Other Receivables	971,987	67,283	418,775	1,458,045
Inventories	118,086	-	-	118,086
Other Non-current Assets	30,535,347	1,674,521	62,799	32,272,667
Total Assets	31,825,679	2,812,365	10,058,646	44,696,690

	USA	SEA	Corporate	Total
Trade and Other Payables	(584,784)	-	(253,574)	(838,358)
Provisions	(2,796,985)	(2,119,625)	(203,286)	(5,119,896)
Net payable to JV	-	(26,098,263)	-	(26,098,263)
Total Liabilities	(3,381,769)	(28,217,888)	(456,860)	(32,056,517)

23. EVENTS SUBSEQUENT TO BALANCE DATE

As announced by the Company on 10 January 2014, the Cua Lo-1 exploration well was plugged and abandoned following drill stem testing. The well encountered the presence of gas although poor reservoir deliverability combined with high carbon dioxide suggests commercial development of the reservoir at the Cua Lo-1 location is unlikely.

The Cua Lo-1 well experienced difficulties during drilling which have resulted in an insurance claim being lodged by the Joint Venture partners. The claim is currently being considered by underwriters. A set out in note 2(a), drilling cost claims received by the operator up to and subsequent to balance date continue to be negotiated with the operator, Eni.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit and interest rate risk together with exchange rate fluctuations arise in the normal course of Neon's business.

(a) Credit risk

The maximum exposure of the Consolidated Entity to credit risk at balance sheet date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the balance sheet. The credit risk relates to trade and other receivables and cash at bank. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. No receivables are impaired or past due. Specific concentration of credit risk exists primarily within trade debtors in respect of sale of oil.

Neon Energy Limited aligns itself with financial institutions demonstrating high credit quality to mitigate any credit risk in regard to its cash reserves.

(b) Foreign currency risk

As a result of operations in the United States, the Group's balance sheet can be affected by movements in the US$/A$ exchange rates. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk. The table below shows the exposure to assets in currencies other than the functional currency.

	Consolidated	
	Dec 13 $	Dec 12 $
Cash and other short term deposits	4,323,364	4,460,207
	4,323,364	4,460,207

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date. The 10% sensitivity is based on reasonable possible changes, over a financial year, using an observed range of actual historical rates, for the Australian dollar to the US dollar, for the preceding 5 years.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 31 Dec 2013, if the Australian Dollar had moved, as illustrated in the table below, with all other variables constant, post tax profit and other comprehensive income would have been affected as follows:

		Effect on:		Effect on:	
Risk Variable	Sensitivity	Profit Dec 13	Other Comprehensive Income Dec 13	Profit Dec 12	Other Comprehensive Income Dec 12
Foreign Exchange	+10%	432,336	432,336	446,021	446,021
	-10%	(432,336)	(432,336)	(446,021)	(446,021)

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans if appropriate. Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. Management monitors rolling cash flow forecasts to manage liquidity risk. The only financial liabilities of the Group at balance date are trade and other payables. The amounts are unsecured and are usually paid within 30 days of recognition.

(d) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Total equity is what management consider and manage as capital.

During 2013 no dividends were paid (2012: nil).
Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

(e) Interest rate risk

The Group has no borrowings at 31 December 2013 (2012: nil). It has no undrawn credit facilities with any financial institution.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Risk

	Dec 13				Dec 12			
Consolidated	Effective Interest Rate	Interest Bearing $	Non-Interest Bearing $	Total $	Effective Interest Rate	Interest Bearing $	Non Interest Bearing $	Total $
Cash	1.40%	9,368,118	331,899	9,700,017	2.74%	19,856,458	793,535	20,649,993
Other financial assets	2.15%	319,757	828,118	1,147,875	-	-	-	-
Trade and other receivables	-	-	1,458,045	1,458,045	-	-	8,489,123	8,489,123
Listed shares	-	-	-	-	-	-	-	-
Trade and other payables	-	(26,098,263)	(838,358)	(26,936,621)	-	-	(2,603,376)	(2,603,376)
		(16,404,199)	1,773,515	(14,630,684)		19,856,458	6,679,282	26,535,740

The table below details the interest rate sensitivity analysis of the entity at the reporting date, holding all other variables constant. A 50 basis point favourable (+) and unfavourable (-) change is deemed to be reasonably possible change and is used when reporting interest rate risk.

Consolidated

		Effect On:		Effect On:	
Risk Variable	Sensitivity	Profit Dec 13	Other Comprehensive Income Dec 13	Profit Dec 12	Other Comprehensive Income Dec 12
Interest Variable	+0.50%	48,439	-	99,282	-
	-0.50%	(48,439)	-	(99,282)	-

*The method used to arrive at the possible change of 50 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. It is considered that 50 basis points a ‘reasonably possible’ estimate.

25. SHARE BASED PAYMENT PLANS

Share Options

The Company’s share option plan was established to provide an incentive to Directors, key management personnel, consultants and employees to participate in the success of the Company. During the reporting period, there were 2,000,000 options granted to directors, key management personnel or employees. 3,100,000 were cancelled due to expiration, during the period there were 3,100,000 options exercised which has resulted in a decrease of 4,200,000 options during the reporting period. The Board determines the exercise price of the options having regard for the market price of the shares at the date of grant and the duration of the contractual life of the option.

The terms and conditions of the options over shares outstanding at the end of the period are as set out in the Remuneration Report and Note 12(d). All options are settled by physical delivery of shares upon the grantee exercising the option in accordance with the conditions:

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENT PLANS (Continued)

Grantee and Date of Grant	Number of Options	Vesting Condition	Life of Options
Issued to employees on 20/05/11	2,200,000	Subject to ESOP vesting	36 months
Issued to employees on 20/08/13	2,000,000	Subject to ESOP vesting	36 months
Total share options	4,200,000		

The number and weighted average exercise prices of options are as follows:

	WAEP Dec 13 ($)	Number of Options Dec 13	WAEP Dec 12 ($)	Number of Options Dec 12
Outstanding at the beginning of the period	0.33	8,400,000	0.29	19,750,000
Granted during the period	0.80	2,000,000	-	-
Exercised during the period	0.20	3,100,000	0.20	8,075,000
Expired during the period	0.40	3,100,000	0.38	3,275,000
Outstanding at the end of the period	0.64	4,200,000	-	8,400,000
Exercisable at the end of the period	0.50	2,200,000	0.33	7,300,000

The options outstanding at 31 December 2013 have an exercise price in the range of $0.40 to $1.00 (2012: $0.20 to $0.60) and an average weighted remaining contractual life of 1.5 years (Dec 2012: 0.5 years).

The weighted average share price on the date of the exercise of options during the period was $0.26 (Dec 2012: $0.35)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per option	Exercise Price	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Divident Yield	Option Life
20/05/11	20/05/14	$0.192	$0.40	$0.41	77%	5.40%	0.00%	3 yrs
20/05/11	20/05/14	$0.207	$0.40	$0.41	77%	5.40%	0.00%	3 yrs
20/05/11	20/05/14	$0.144	$0.60	$0.41	77%	5.40%	0.00%	3 yrs
20/05/11	20/05/14	$0.162	$0.60	$0.41	77%	5.40%	0.00%	3 yrs
20/08/13	20/08/16	$0.101	$0.60	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.101	$0.60	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.055	$1.00	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.055	$1.00	$0.33	66%	3.16%	0.00%	3 yrs

Expected volatilities for all options were based on the previous 12 months historical volatility of the Company share price.

Performance Rights

The Company's performance rights plan was established to provide an incentive to Directors, key management personnel, consultants and employees to participate in the success of the Company. During the reporting period, there were no performance rights granted in relation to the 2013 financial period. There were 1,363,142 rights issued to Ken Charsinsky in relation to the 2012 financial period, which were issued on the 12th of April as a result of being subject to shareholder approval.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENT PLANS (Continued)

The terms and conditions of the performance rights outstanding at the end of the period are as set out in the Remuneration Report and Note 12(e). All rights are settled by physical delivery of shares upon the fulfilment of the vesting conditions:

Grantee and Date of Grant	Number of Options	Vesting Condition	Life of Rights
Issued to employees on 01/10/11	1,970,732	Subject to LTIP vesting	33 months
Issued to employees on 25/11/11	899,743	Subject to LTIP vesting	31 months
Issued to employees on 31/10/12	3,004,548	Subject to LTIP vesting	32 months
Issued to employees on 12/04/13	1,363,142	Subject to LTIP vesting	27 months
Total share options	7,238,165		

The rights outstanding at 31 December 2013 have an average weighted remaining contractual life of 1.1 years (Dec 2012: 2.0 years).

The fair value of services received in return for performance rights granted are measured by reference to the fair value of performance rights granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the right is used as an input into this model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per option	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield	Life of Right
01/10/11	30/06/14	.285	.285	70%	2.51%	0.00%	2.7yrs
25/11/11	30/06/14	.395	.395	70%	2.62%	0.00%	2.6 yrs
31/10/12	30/06/15	.190	.265	70%	2.54%	0.00%	2.7 yrs
12/04/13	30/06/15	.111	.185	70%	2.78%	0.00%	2.2 yrs

Expected volatilities for all rights were based on the previous 12 months historical volatility of the Company share price.

Employment Costs Recognised in Income Statement:

	Consolidated	
	Dec 13 $	Dec 2012 $
Share options granted in 2010 – equity settled	-	1,624
Share options granted in 2011 – equity settled	38,868	51,086
Share options granted in 2013	42,735	-
Short Term Incentive Plan	-	(160,482)*
Achievement Rights granted in 2011 – equity settled	341,228	172,014
Achievement Rights granted in 2012 – equity settled	263,558	35,825
Total expense recognised as employee benefit expense	686,389	100,067

*The Short Term Incentive Plan expense presented in the 30 June 2012 annual report had not been approved by the Board as at the date of the annual report. The amount that was subsequently approved was less than originally accrued and split between equity and cash. As a result an amount of $160,482 was reversed in share based payments expense in the 6 months to 31 December 2012.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Neon Energy Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

(c) subject to the matters discussed in note 2(a) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2013.

On behalf of the Board

Ken Charsinsky
Managing Director

Perth, 31 March 2014

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Independent auditor's report to the members of Neon Energy Limited

Report on the financial report

We have audited the accompanying financial report of Neon Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Neon Energy Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report, which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Neon Energy Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
31 March 2014

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS
AT 20 MARCH 2014

	Fully Paid Shares	% Shareholding
J P MORGAN NOMINEES AUSTRALIA LIMITED	45,727,536	8.27
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,331,816	2.41
CITICORP NOMINEES PTY LIMITED	12,187,386	2.20
MR PETER EDWARD MASTERS + MS PAULA ELLEN MASTERS <THE BORAVMBA SUPER FUND A/C>	9,790,000	1.77
COMSEC NOMINEES PTY LIMITED	9,155,778	1.66
ARREDO PTY LTD	9,000,000	1.63
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	8,529,562	1.54
HAROMA PTY LIMITED	7,541,320	1.36
PONDEROSA HOLDING PTY LTD <PONDEROSA SUPER FUND A/C>	5,000,000	0.90
FIL RESOURCES LTD	4,948,680	0.89
HAWKES BAY NOMINEES LTD + MR TERRY COFFEY <WILLIAMS FAMILY N2 A/C>	4,900,000	0.89
ATHOL STEELE PTY LTD	4,745,708	0.86
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,139,820	0.75
MR CHONG MENG LAI + MADAM BEE HONG TAN	4,000,000	0.72
MR BACH TRAN	3,252,023	0.59
MR ALLAN DOUGLAS CHRISTIE + MRS PATRICIA MARJORIE CHRISTIE <CHRISTIE FAMILY A/C>	3,000,000	0.54
OFF KEY PTY LIMITED	3,000,000	0.54
MUZBIRD PTY LTD <BIRD SUPER FUND A/C>	2,915,495	0.53
SHERRARD INVESTMENTS PTY LTD <SHERRARD FAMILY A/C>	2,700,000	0.49
MS LAURIE JO CHARSINSKY	2,488,005	0.45
	160,353,129	28.99

DISTRIBUTION OF EQUITY
Analysis of shareholders by size of holding

	Total holders	Number	%
1 - 1,000	362	153,048	0.03
1,001 - 10,000	2,287	12,627,025	2.28
10,001 - 100,000	3,007	118,189,832	21.37
100,001 - 1,000,000	788	224,431,250	40.58
1,000,001 - 9,999,999,999	49	197,636,693	35.74
Total	6,493	553,037,848	100.00

SUBSTANTIAL SHAREHOLDERS
As at the date of this report the company does not have any substantial shareholders.

VOTING RIGHTS
There are no restrictions on voting rights attached to ordinary shares. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have on a vote. There are no voting rights attached to the unlisted options issued by the Company.

SHAREHOLDER INFORMATION

AS AT 20 MARCH 2014

SHARE CAPITAL STRUCTURE

Fully Paid Ordinary Shares	553,037,848
Options (Unlisted)	4,200,000

TWELVE MONTH TRADING HISTORY

Share Price Trading Range	\$0.022 - \$0.43
Liquidity (annual turnover / issued capital)	223%
Average shares traded per month	102,783,826